

14 MAY 1990

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# ***JPRS Report***

## **China**

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# China

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## GENERAL

### Trends in Education To Meet 21st Century Challenges

90CM0056A Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 1, 8 Jan 90 p 20

[Article by Gui Feng (2710 1496) in the "World Trends" column: "Outlook for Education in the Future"]

[Text] The contemporary world is now in the era of the new technological revolution, and the 21st century will be a new century of rapid development in technology and fast-changing information. Facing this challenge, education will break away from traditional concepts and forms, so that in its content there will be a constant weeding through the old to bring forth the new, and the tide of educational reform will surge forward. In particular, the macrodevelopment of world education in the future has become a major topic that is the focus of world attention and of joint exploration. In view of the development in depth of modern education, particularly the major innovations of the eighties, there will be the following tendencies in educational reform in the modern world:

#### 1. The Principle of Lifelong Education Will Be Widely Applied, and This Will Be an Important Trend in Future Development of Education

It is very difficult for the existing school system to adapt to the swift changes of the era, and it is powerless to deal with the constantly rising new demands on education. The idea of lifelong education is emerging as the times require amid the tide of reform.

The idea of lifelong education, which in Europe and even the whole world is an important trend in international education, began in the sixties. The book *Learn To Live* gives this definition of lifelong education: It includes all aspects of education. Lifelong education is not an educational system; it is the principle on which the entire organization of the system is based. This principle runs through the developmental process of every part of the system. "Includes all aspects of education" means "the sum total of all kinds of training that people receive in their lifetime." In time, they include the continuous process of regular and irregular education and training from childhood, youth, middle age, to old age. In space, they include the home, school, society, and all places and means that can be used for education. The meaning of "the principle on which the entire organization of the system is based" is this viewpoint on setting up an educational system: "Educational activities are thought of as a whole, and all educational departments are integrated in a unified, mutually linked system." This system does not exclude school education, but rather includes it, and adult education is also a component part of it. In brief, making the educational system an organic whole is the central idea of lifelong education.

There are two distinct characteristics of lifelong education: First, speaking of time, breaking the demarcation line of the school-age period and the working age period, a person at all times needs to be and can be educated. Many higher schools abroad have now done away with restrictions on school age, opening wide to people of all ages the gate to knowledge. Speaking of space, breaking through the barrier of regular schools to expand the world of study has made correspondence universities, radio and television universities, open universities, and even railroad car universities, and tourism universities become suitable forms of study. In brief, education is no longer a special product to be provided for the enjoyment of a small number of people, and neither is it any longer a special privilege that only youth can get. Making use of all sorts of time, creating all sorts of conditions, and using all sorts of forms to open wide for adults the path to learning and the path to talent, is precisely the basic feature of the time-place structure of lifelong education.

The theory of lifelong education is a trend of thought in education that is highly popular internationally. In the educational plans of many countries, it already has produced and will continue to produce far-reaching effects. The third general reform of the educational system that Japan made in 1971 clearly announced that, with lifelong education as the goal, there was a reform from the preschool stage all the way to the adult education stage, taking strides toward making all of society a place for study. The specific practices were, first of all, to strengthen the function of home education and to expand preschool education. Educational departments in all places, through all sorts of forms, promoted women's knowledge and skills in relevant home education. Education in elementary and middle schools turned in the direction of laying "a foundation for training in lifelong education," attaching importance to training students in the desire to study, the spirit of exploration, the capability for self-study, and professional outlook. All sorts of forms were adopted to promote the opening up of universities to society, enhancing adult education in society and in enterprises, in order to effect lifelong education in a planned manner.

In brief, lifelong education is moving from theory to practical life. The final form of reformed world education will certainly be an organic whole composed of school education—recurrent education—lifelong education.

The more than 40 postwar years may be said have been a period of educational reform. In this reform there have been universality and continuity. However, the great majority of reforms were partial. With this kind of partial reform, because it lacks unified ideas and a concept of the overall situation, it is difficult to avoid attending to one thing and losing sight of another and of missing opportunities. In its practice of reform, each country has gradually come to understand that education is to be regarded from the viewpoint of long-term development. The present educational system is already huge

and complex, and in the future it will be even more huge and complex. Therefore, we must make unified ideas our guide and make overall reforms. Of course, we can use scattered, partial, gradual reforms to reform the system, and change the understanding and practice of educational reform, which will make the overall reform of education a major and irreversible trend in the development of education.

The overall reform of education includes: 1) The demand that the educational system be transformed from a closed one to an open one, forming a crisscross network of relationships; 2) the concepts of time and space must be changed; 3) all kinds of education must be developed in a coordinated manner; 4) teaching must be made more scientific and individual; and 5) the traditional educational system must be fundamentally changed.

In brief, education is in a period of major transformation and of a major turn in the course of events. It is receiving the serious attention it never had before, and is also receiving criticism it never had before. It is full of opportunities, and it also faces challenges. Education can develop only amid the demands of reform. On the journey to the future there are shortcuts and branch roads, but we have full confidence in the future of education.

### Hosting of 11th Asian Games Discussed

#### Benefits Expected

*90CM0044A Beijing LIAOWANG [OUTLOOK]  
in Chinese No 2, 8 Jan 90 pp 11-12*

[Article by He Zhenliang (0149 2182 4731), chairman of the China Olympics Committee, vice chairman of the Standing Committee of the China Olympics Committee's Subcommittee on the 11th Asian Games: "We Must Manage the Asian Games Successfully"]

[Excerpts] The 11th Asian Games will be held in Beijing 22 September to 7 October 1990. This will be the first time that our country sponsors a large-scale and consolidated athletic event. A successful Games will not only be a great achievement for our people and for our athletic community for the 1990's, but will add luster to all the people of Asia and its sports. [passage omitted]

It goes without saying that when we first applied to hold the Games, some wondered why we should be doing this, but as we progressed in our preparation, more and more came to recognize its value and significance.

Asia is a venerable continent with magnificent cultural traditions and yet now also is a revitalized area with fresh energy and vitality. The people of Asia share a common aspiration to have a united and revitalized continent. China must provide its share of the contribution to this end. Athletics, through its unique nature and attraction, can pull together people of different nationalities, political systems, religions, and social strata.

Experience has proved that the Asian Games have been a major factor in promoting mutual understanding and good relations as well as in advancing athletics. Because of this, we determine that the guiding principles of the 11th Asian Games will be "Unity, Friendship, Progress."

There will be as many as 10,000 athletes, officials, and reporters from Asia and elsewhere attending, plus tourists and other visitors. They will be able to see for themselves the great achievements of the Chinese people under the leadership of the Communist Party, resulting from the building up of socialism, reforms, and opening up. They will personally feel the good will that the people of China have for people of the world. Arranging such a large-scale, comprehensive, and modern athletic event is a complex feat of engineering. The past has proven that it not only fosters the development of athletics, but benefits municipal construction, tourism, communications, progress in economic, scientific, and technological areas, as well as boosting spiritual civilization everywhere.

Athletics can stimulate the national spirit, draw the people cohesively together, and is a valuable tool for promoting patriotism. In the past, Chinese participants in the Olympics and the Asian Games have stirred the hearts of Chinese home and abroad. Now they are all concerned about the success of the Games in Beijing. What delights us is the fact that the athletic leadership of the Taiwan region has expressed a number of times that they will definitely send a sizable delegation to participate. Hong Kong has also accepted its invitation. In December 1989, the Asian Games-Olympics Committee formally received members of the Macao Olympic Committee. Now we expect them to attend formally for the first time an Asian Games. No words need be said that all these add to the splendor of the forthcoming Games and add a glorious page to the progress of Chinese solidarity and unity.

The process of preparation is marked by the support and interest of tens of thousands of ordinary Chinese in different ways and different routes. Over 30,000 construction workers toiled day and night in heat and cold. Workers, peasants, general officers and soldiers, teachers and students, even cadres, literary and artistic figures, entrepreneurs, and plain individuals donated money and articles, offered suggestions. The process produced numbers of deeply moving and hard-to-forget anecdotes. Chinese at home and abroad gave massive support. Hong Kong's patriotic celebrity, Huo Yingdong [7202 5391 2639] made a huge financial contribution.

Progress has been relatively smooth. China set up an organizational committee for the 11th Asian Games, with the chairman of the Standing Committee of the National People's Congress, Wan Lidan [8001 6849 2137], named honorary chairman. Beijing's mayor, Chen Xitong [7115 1585 0681], and National Athletics

Committee director Shao Zu [4801 4371] serve respectively as organizational and executive chairmen. All agencies concerned participated in the work of the organizational committee.

These forthcoming Games will have 27 competitive events and two exhibitions. Included will be various items traditional to Southeast Asian and Middle Eastern countries to let each display its talents and skills. The events will be held in the two areas of Beijing's immediate districts and at Qinhuangdao. The Games will be staged in 33 athletic fields or arenas and 46 practice fields. Work was nearly complete on 20 new or renovated fields at the end of last year, and four will be finished by May 1990. All needed equipment is either in production or on order, with 70 percent made in China. To welcome the Games, Beijing's municipal construction office expended huge efforts to build and repair intersections, widen roads, and improve traffic. The city is accelerating its greening and beautification projects. The 2,500 motor vehicles necessary for the duration of the Games are being arranged for. Medical support will be furnished by 31 major hospitals with the most modern of facilities. New media requirements, telecommunications, special telecasts, timing, and score-keeping are all falling into place. Opening and closing ceremonies, art exhibits, and so forth, are all being arranged and the Games' song and other music are being written by prominent Chinese poets and composers. With 10 months or so still to go before the Games begin, Beijing opened a citywide propaganda campaign to promote the Games. There has been no lack of volunteers, so the Games are now almost a household word. The people of Beijing are going all out to prepare themselves as host to the Games.

In September 1989, a year before the start, we sent invitations to 38 members of the International Olympic Committee. While there is quite some time before an official response is expected, many have already wired their acceptance, pledging to send their best athletes. Last April [1989] I reached an agreement with the people in charge of Taipei's Olympic Committee about the prospect of athletes from the Taiwan region attending. As a result, since last year, Taiwan has sent gymnasts, table tennis players, athletes in judo, handball, basketball, sailing, archery, fencing, tennis, and crew, as well as women weight-lifters successively to the mainland to compete, thus promoting mutual understanding and brotherly affection. I can predict that Taiwan's forthcoming participation will further stimulate interchange between our two shores.

#### Sports Commission Members Comment

90CM0044B Beijing LIAOWANG [OUTLOOK]  
in Chinese No 2, 8 Jan 90 pp 14-15

[Article by Zheng Li (2419 3810): "What Can Be Gained From Holding Consolidated Games?"]

[Text] What are the advantages of holding consolidated games? What is the significance of China's sponsoring it?

A few days ago, we invited officials involved in decision-making on these matters to attend a talk session on the above. Present were Wei Jizhong [7614 4764 0022], chief of International Liaison, National Sports Commission; Zhu Zhangling [2612 4545 5376], deputy chief of the commission's Consolidation Department; and Xie Qionghuan [6200 8825 2719], deputy director of its Policy Studies.

Wei: Such an event reflects the combined efforts of various athletic functions. From sports itself, minimum functions include: 1) Promoting the development of sports, in particular, raising standards of technical performance; 2) Promoting increased support of athletics by local authorities; 3) Promoting increased understanding on the part of the general public to support and participate; 4) Attracting widespread discussion and concentrating its promotion to increase society's consciousness of sports.

Zhu: A national sports event of such magnitude with so many categories will reflect the accomplishments and standards of a province or a country much more effectively than if each were held separately. It promotes accomplishment, identifies the skilled, and sets direction for age, training, and leadership principles.

Xie: An event or a social phenomenon of long endurance and life cannot happen occasionally. From the Greek Olympics of ancient times to our present day where one sees a committee encompassing 168 countries, it has been global. Some countries attend and win nothing time after time, but still send participants. This shows that such consolidated games, aside from winning trophies, have other direct and indirect benefits.

Wei: Now, some do not see the whole. For example, some come only to fight for a medal, then criticize the awarding of a gold medal. Actually, the gold is merely a symbol, not the end all and be all of sports competition. Sports are part of education. Many people watch competitions of skill. Television broadcasts draw many watchers, does this benefit society? Such display of skills are fulfilling for the leisure time of many, especially the young, helping them establish a scientific, civilized, and healthy lifestyle. This is important.

Zhu: The process of a sports meet is also the process of educating the people. Generally speaking, whenever a consolidated meet is held, a city must mobilize and organize the masses to serve in various areas. This is a great opportunity for collectivism and patriotism. Whenever we have one of these in a city, it results in superior-quality activity in every area, in every system, and in every department, as well as in every street contributing to the effort, creating "civilized citizens" and "civilized cities" and thus fostering good social mores. All discussion, unity, cooperation, and common goals work for the same cause.

Xie: I enjoy the way an architect said it: Sponsoring a consolidated sports event, especially one like the Olympics, can be considered as a ritual of "becoming a man" because not only is it demanding of athletic facilities, but also of traffic, communications, hotels, environment, and quality of service. It thus reflects on the level of progress of a country's economy, and that of society. To be able to hold such an event is to say that the particular city is not a "child" or even a "youth," but has "matured as a man."

If we stretch the definition of "man" a bit, not only the Olympics, nor just the Asian Games, but every such event can be considered as part of a "maturing" process.

Wei: You only need to look at Beijing. In recent years, its face has changed drastically. You don't have to talk about sports arenas, which are the frosting on the cake, but how about the traffic improvements as a start? By the time the Games open, you are going to see an even newer aura. Not only will the Games be served, not only will sports benefit, but the whole city. It will advance its economic and cultural areas. So we cannot just think that such events are economic burdens or money losers. Of course, it requires investment and the gains might be slow in coming. A prerequisite is consideration of whether the burden can be borne.

Zhu: The former athletically backward province of Henan approved new construction for young athletes; now it has 12 new fields. Shanghai agreed to hold the Fifth National Sports Meet and built some more up-to-date swimming pools and water sports arenas, repaired some old facilities, and added needed equipment. Liaoning approved two youth sports centers, Shenyang and other places made big changes. Guangzhou's Tianhe Sports Center. Even [Juan Antonio] Samaranch was moved to praise. And looking at other municipalities—before the First Youth Olympics, Henan repaired and expanded about 500 kilometers of road toward five towns and improved telegraph and television facilities. And the masses responded by saying that decades-old problems were solved with the approval of the Youth Olympics. All kinds of conditions for building and supply as well as for economic development have come about because of sports.

Xie: Considerable money was concentrated on sports, but it actually was spent on city building, which is long-term. \$1 billion were spent for basic municipal construction during the 1964 Tokyo Olympics, including high-speed roadways and electrified railways. Not long ago, a professor at Fugang said to me that many Japanese had opposed such an exorbitant expenditure. Not too many years later, the Japanese people arrogantly referred to it as the "Tokyo Olympic boom." Some economists even consider 1964 to have been the milestone year when Japan became an industrial power. It was said that the Soviet Union spent \$9 billion for the 22d Olympics and the Soviets supposedly considered it an important phase in the "complete redevelopment of Moscow."

Wei: Evaluating the pluses and minuses of sponsoring something like this, that is to say, assessing the socioeconomic benefits, is not a simple matter. There are questions of short-term versus long-term gains. Not only is it a problem for sports, but for the government and the local populace. This is true whether at home or abroad and it does not matter whether it is the Olympics or Asian Games or any other world tournament. All require government support and guarantees or one cannot apply. There will be a badminton world tournament in Beijing in 1990. It has the support of our country and of Beijing's municipal government. Otherwise, it wouldn't be held. Actually, while the Los Angeles Olympics was completely privately sponsored, it received much backing from the Reagan administration to the mayor of Los Angeles. Otherwise, the problems in security and traffic would have been insoluble.

Xie: That is definitely so. To obtain funding for the 23d Olympiad, the organizational committee asked Reagan to sponsor a \$800-a-plate dinner. Actually the consumed food did not, of course, amount to that, but what was left after expenses was contributed to the committee. The City of Los Angeles also approved a half-a-percent increase in the surcharge on hotels and restaurants and raised \$8.1 million for the Olympics. These two examples alone demonstrate the support given by the U.S. Government.

Zhu: During the Sixth National Sports Meet, several foreign guests were invited, including the chairman of the International Olympics Committee, Mr. Samaranch, Overseas Chinese, our countrymen from Macao and Hong Kong, and thousands of reporters, interviewers, extolling Guangdong's economic buildup, achievements of our spiritual civilization and our opening up policy. The delegation from each province saw what happened in Guangdong, had their eyes opened, learned much, and reinforced their confidence in opening up. Recently, having inspected the work being done on the Asian Games, Jiang Zemin commented on how our policy of reform and opening up and international good will would all benefit from the Games. At the same time, approval of the Games stimulated our people and pushed toward two civilized buildups. Li Peng also said, "Not only is this a great thing for Beijing, but for the whole nation. Not only does it stimulate athletics, but it is many-faceted in demonstrating the power of our people."

Wei: This actively brings our country and our people together. The Japanese announced at the 18th Olympiad that they would use it to "proclaim to the world that Japan is no longer a defeated nation." At the 23d, the U.S. press commented that it "revitalized the American creative spirit" and enhanced "American consciousness." At the 24th, South Koreans said the "Seoul boom" would surpass the "Tokyo Olympic boom." Some say only socialist nations attach political significance to sports. Actually, capitalist countries may surpass them.

Xie: Sports are nationalistic and internationalistic. A country and a people undertaking such an endeavor, aside from gaining benefits for the country and the people, also serve the development of international sports and contribute to the international Olympic movement. It is worth making sacrifices, particularly on the part of a country opening up.

### Limited Real Change Seen in Soviet Military Doctrine

90WC0046A Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 2, 16 Jan 90 pp 24-25

[Article by Zhou Aiqun (0719 1947 5028): "The Soviet Union Adjusts Its Military Strategy"]

[Text] In recent years, at the same time as it has been destroying intermediate-range nuclear missiles in accordance with the U.S.-Soviet Intermediate-Range Nuclear Forces (INF) Treaty, the Soviet Union has continually raised disarmament proposals and adopted measures to reduce military expenditures and personnel. Late last year, the Soviet Ministry of National Defense announced a 1990 military budget of 70.9 billion rubles, which was 8.2 percent smaller than that of the previous year. At the same time, as of 1 January this year, Soviet military personnel totaled 3,993,000, a decrease of 265,000. The Soviet Union's reduction of military expenditures and personnel and its public announcement of concrete figures concerning its military expenditures and troop strength touched off a lot of discussion about the Soviet Union's adjustment of its military strategy. People remember the announcement by Soviet leader Mikhail Gorbachev in early December 1989 in the UN General Assembly that the Soviet Union would cut its troops by 500,000 within two years and would gradually "switch from an arms economy to a disarmament economy." These kinds of changes by the Soviet Union in the military sphere indicate that it is now setting about the task of readjusting its military strategy in response to the domestic and international situation.

### Signs of Readjustment

According to reports and analyses carried in Western and Soviet print media, the current readjustment in military strategy by the Soviet Union is broad in content and touches upon many issues. The most important indicator is its switch from an emphasis on a strategic offensive posture to an emphasis on a strategic defensive posture. This is manifested primarily in the following ways:

**1. Switching from comprehensive preparations for real war to a focus on preventing the outbreak of war.** During Khrushchev's time, the Soviet Union focused on preparations for a large-scale nuclear war using rockets, and felt that this would be the only type of war possible. "Any war, even if it begins as a conventional war, will change to a nuclear war involving rockets and bringing great destruction." In the Brezhnev era, the Soviet Union

advocated fighting all types of wars. At the same time as it prepared for large-scale nuclear war involving rockets, it strengthened its preparation for conventional warfare. It felt that future wars "could be either nuclear or conventional; either global or limited." In the latter Brezhnev era, there was some change in the view of nuclear war and nuclear weapons. At the same time as it carried out comprehensive preparations for real war, it attached more and more importance to conventional warfare backed up by nuclear weapons, and it brought forth the theory of "strategic theater campaigns." In the Khrushchev and Brezhnev eras, although the Soviet Union's views on what kind of war should be fought were not always the same, it always believed that in any war the Soviet Union should take the offensive. It focused on preparing for and winning any war of any type.

After Gorbachev came to power, the Soviet Union made a clear pronouncement that prevention of war and counterattack against invasion were the two great tasks of its military theory, and top priority was granted to the prevention of war. It felt it could afford to fight neither nuclear nor conventional war. Although these statements by the Soviet Union were needed for propaganda purposes, they also indicated increased caution by the Soviet Union toward the use of military force outside its own borders.

**2. Switching from military expansion to an emphasis on building a quality army.** For a long time, the Soviet Union continually expanded its military power, and it far exceeds defensive requirements. After Gorbachev came to power, he reversed past precedent by proposing the principle of "reasonable and sufficient" power, and the 19th All-Union CPSU Conference in 1988 affirmed the program of building a quality military. In order to carry out this program, the Soviet Union decided to reduce military expenditures. They decided to cut expenditures by 1.5 percent in 1989 and by 14.2 percent in 1990 and 1991 from a base that had already been frozen in 1987 and 1988. The Soviet Union also took measures to reduce numbers of troops and shrink the scope of industrial production by military industries. Many national defense industry departments have switched to production of civilian goods. They have adopted the principle of "more research and development, less production," thereby maintaining an advanced level of technology while decelerating the reequipping of troops. They strengthened the C3I Project, thereby improving command and rapid response capability. They have improved the combat readiness of their troops. It is apparent that the Soviet Union intends to change its military forces, which had been too large, into one appropriate to its economic strength and appropriate for its role as a superpower. It is also apparent that the Soviet Union intends to achieve "low-level parity" with the United States.

**3. Switching gradually from strengthening offensive operational capability to strengthening defensive operational capability.** The Soviet Union is now proceeding primarily on two fronts. First, they are readjusting tasks and

development objectives for the five big arms of the military. The Strategic Rocket Forces, which previously stressed tactics for actual war, are now beginning to stress methods for preventing war. Their size may be further reduced, and the importance of their position would drop correspondingly. The Army is beginning to emphasize development of defensive operational capability on its home soil. Troop strength and offensive weapons may be somewhat reduced, and stress will be placed on the strengthening of defensive operational capability. The Air Force will reduce some old fighters and bombers. The Navy will reduce deep-sea operations and maneuvers. There will be a relatively large reduction in the number of ships, but development of large surface-operations vessels will continue to receive high priority. The position and role of the Air Defense Forces will rise further, and its relative importance among the five arms of the military will grow. The second way in which the Soviet Union is strengthening its defensive operational capability is by partially reorganizing the Army in accordance with the requirements of defensive operations. Military districts and the headquarters of various group armies are being reduced in size or merged with others. New-style group armies in the Army are being disbanded, and first-line tank divisions and motorized infantry divisions are having their offensive weaponry reduced.

**4. Switching from a strategic offensive posture to a strategic defensive posture.** Gorbachev has stressed that a strategic defensive is a fundamental type of military operation, and he no longer stresses the role of the strategic offensive posture. Reaction in the West indicates that this guiding philosophy has begun to be manifested in Soviet military training and maneuvers. Since 1985, the tendency to emphasize defensive operations in Soviet military maneuvers has grown increasingly pronounced. Furthermore, in their counterattack stage, these types of maneuvers have generally been limited to recovering the original defensive posture. They no longer include any intention to penetrate enemy territory.

**5. Switching from sending troops to foreign countries to reducing some forces stationed abroad.** For a long time, the Soviet Union pursued a strategy of global offensive. It sent large numbers of troops to foreign countries and established forward deployments, which are offensive in nature, on its western, eastern, and southern fronts. In recent years, the Soviet Union has gradually begun to withdraw its troops from abroad and has reduced its troop strength along the Sino-Soviet border. Its decision to reduce troops by 500,000 will be carried out by the end of 1990 by withdrawing 240,000 troops from the West, 200,000 from the East, and 60,000 from the South.

#### Amidst Change, Some Things Remain the Same

The general view is that adjustment of military strategy is not something that the Soviet Union can achieve overnight. It will be quite a long process, and will at times touch upon fundamental interests. The Soviet

Union will not make changes at the drop of a hat, so this adjustment has so far been limited. This is due to the following reasons:

**First, the basic strategic aims of the Soviet Union have not changed.** Although the Soviet Union claims that Soviet-U.S. relations have entered a stage of "cooperation," and that the Soviet Union no longer views the United States as the "enemy," the United States is still the principle adversary of the Soviet Union. The global struggle between the two parties, focused on Europe, has not come to an end.

**Second, the theoretical preparation for adjustment of military strategy by the Soviet Union is not yet complete.** The actual implications of the "purely defensive" character of the military theory put forward by the Soviet Union, and of the concept of "reasonable and sufficient" force are still a matter of debate in the Soviet Union and clear consensus is lacking. At the same time, the "low-level parity" proposed by the Soviet Union could be very advantageous to countries other than the United States.

**Third, the Soviet military still maintains a large and powerful offensive force.** This is an important strength which it relies on to continue pursuing its superpower politics, and the Soviet Union will not lightly give it up. Although the Soviet Union has decided to reduce its troops by 500,000, this represents only about 10 percent of total troop strength, and its 3-in-1 offensive nuclear force has not been greatly reduced. What is more, the Soviet Union is still vigorously upgrading its weaponry, developing cutting-edge conventional weapons, stepping up research on space technology, guided energy technology, and antisatellite technology, and aggressively deploying a new generation of nuclear weapons.

**Fourth, the forward-deployed offensive posture of the Soviet Union has not been fundamentally changed.** The Soviet Union still has large numbers of troops stationed in Eastern Europe, and its troops stationed in Mongolia have not yet been withdrawn, either. The Soviet Navy still maintains naval patrol forces in the Indian Ocean and the Mediterranean Sea, and it will not give up its base in Cam Ranh Bay for some time. Although the Soviet troops have been withdrawn from Afghanistan, the Soviet Union has not given up its strategic interests there.

It is generally felt abroad that adjustment of the Soviet Union's military strategy has just begun. It is subject to constraints from foreign countries (mainly the United States) as well as the limitations of various domestic factors and the influence of traditional military thinking. The road of readjustment is going to be long and rocky.

#### Gorbachev, Al-Asad Say U.S. Impeding Mideast Peace

OW0205114290 Beijing XINHUA in English  
0610 GMT 29 Apr 90

[Text] Moscow, April 28 (XINHUA)—Soviet President Mikhail Gorbachev and visiting Syrian President Hafiz

al-Asad criticized the United States today for impeding peace efforts, the Soviet news agency TASS said Saturday.

The two presidents held a four-hour discussion on the Middle East situation, Soviet Jewish emigration to Israel and bilateral relations, including Soviet assistance to modernize Syria's armed forces, TASS said.

They said they were gravely concerned about Israeli possession of nuclear weapons, despite the greatly diminished threat of a world war.

The two leaders said the Middle East peace process has been impeded by the U.S. stand on the question of Israel's nuclear weapons, a stance that is even worse than that of the previous U.S. Administration.

As a result, Israeli leaders have no incentive to search for a more realistic way out of the deadlock with its Arab neighbors. On the contrary, the Israelis have become more aggressive, the two leaders agreed.

Although forces of dialogue and interaction in Western Europe and the U.S. are strong, the temptation still exists for the U.S. to use the current situation to restore "American leadership of the world," Gorbachev said.

Al-Asad said some Western nations attempted to take advantage of Moscow's preoccupation with internal affairs to increase their pressure on the progressive forces and the Arab world.

Gorbachev said this question must be tackled seriously, adding the West is cherishing a trend of revenge "linked with the events in Eastern Europe and based on delusion and anti-communist stereotypes."

Al-Asad also expressed concern about Soviet Jewish emigration to Israel and subsequent settling in the occupied territories.

Gorbachev said he appreciated Syria's objective position on the matter and denied allegations of "collusion" with the United States on the emigration issue.

The increasing emigration of Soviet Jews to Israel in recent years was caused by negative trends in Soviet ethnic relations as well as outside influence, that is, the United States closed its door to Soviet emigrants, Gorbachev said.

#### **Japan, France Agree USSR Still Military Superpower**

*OW2104084390 Beijing XINHUA in English  
0141 GMT 19 Apr 90*

[Text] Tokyo, April 19 (XINHUA)—Japanese Defense Agency Director General Yozo Ishikawa said here yesterday that a reduction in military ability in either Europe or Japan would be undesirable as the situation in the Soviet Union remains fluid.

The Japanese defense chief made the remark after his meeting with visiting French Defense Minister Jean Pierre Chevenement, who arrived here earlier in the day on a four-day trip.

During their talks, Chevenement said that France and Europe would assume responsibility for their own defense as U.S. troop withdrawal progressed, guarding against any hollowing out of military strength, according to Japanese Defense Agency officials.

The French defense minister also proposed greater bilateral cooperation with Japan in technology.

Ishikawa welcomed an increased exchange of "technology in general," but said Japanese policy forbids the export of military technology.

However, the two defense chiefs agreed that the Soviet Union remained a military superpower despite arms reduction under the perestroika program of restructuring, the officials said.

Chevenement is so far the first French defense minister to visit Japan, though Japanese defense chiefs have traveled to Paris several times before, the officials noted.

## **UNITED STATES**

#### **Bush's Foreign Policy Decision-Making Behavior Analyzed**

*90CM0057A Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 1, 8 Jan 90 pp 23-24*

[Article by Lu Lin (4151 2651): "Features of Foreign Policy Decision-Making in the Bush Administration"]

[Text] Every U.S. President has had his own style and special approach when it comes to the procedures and organizations involved in foreign policy decision-making. The current President, Mr. George Bush, has been in office now for one year, and aspects of his style and special approach are gradually becoming clearer.

#### **A Policy-Making Process That Is Passive, Cautious, and Encourages Participation**

Mr. Bush has been in office for one year now and what has become evident is that on the whole he is a passive type of president. In terms of aspects of foreign policy decision-making, normally when he is handling policy directed at emerging international issues, he is careful and cautious in dealing with the situation. The principle that he pursues is to proceed from real politics, and as far as possible take few risks and make few mistakes. In terms of appearance, he often is pushed into action by the situation and does not, unlike Reagan, actively take the initiative in pushing the situation forward toward set objectives. For example, in terms of policy toward the Soviet Union, Mr. Reagan, as soon as he assumed office, proposed an offensive policy of containing Soviet aggression through the use of real [military] strength, and

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coupled this with the adoption of a set of tough and concrete measures. On the other hand, facing a situation where dazzling and drastic changes have been occurring in Eastern Europe and where the Soviet Union has repeatedly proposed new policies and launched foreign policy offensives, Bush seems to lack decisiveness. For some time, besides repeatedly declaring that the Soviet Union should take real action to prove that its policies have changed, he has not yet been able to propose a new and constructive policy for resisting the Soviet foreign policy offensive. This no doubt reflects the fact that, in terms of choosing policy goals, Mr. Bush is quite cautious, but at the same time it also reflects the fact that in the face of a turbulent international situation, in deciding what to do, he personally does not have a consistent view on how to achieve U.S. national interests.

At the policy formulation stage, Mr. Bush pays quite a bit of attention to bringing the initiative and enthusiasm of the Cabinet organizations into full play, and he delights in listening directly to the opinions and suggestions of the Cabinet department heads. Many of the Cabinet secretaries can, in fact, bypass White House arrangements and have direct contact with Bush. For example, Treasury Secretary Nicholas Brady, when he proposed a plan for cutting Third World debt, kept clear of the conventional channels and dealt directly with Mr. Bush. In addition, Secretary of State James Baker has unrestricted access to telephone communication with Mr. Bush, and frequently makes a decision "on the spot." Furthermore, Bush in fact tacitly approves when some Cabinet secretaries bypass the White House on some questions and handle things on their own. Some critics say that "the Bush administration, in its first several months in office has been like an organization that is letting things drift," and "some powerful figures often do not accept White House control." For example, Secretary of Commerce Robert Mosbacher did not check with Bush and the White House staff when he personally made a policy decision to allow computers to be offered for sale to the East European bloc.

At the final policy decision-making stage, after listening to the opinions of those involved, Bush often elects the plan with the greatest safety margin or one for which he has a gut feeling. For example, when discussing the question of troop cuts in Europe, the President's national security adviser, Brent Scowcroft, suggested that Bush propose a broad reduction in the number of U.S. and Soviet ground forces and combat aircraft stationed in Europe, and Bush, though he preferred Scowcroft's suggestion, still wished to hear the Pentagon's views on the matter. After a discussion within the military, Colin Powell, chairman of the Joint Chiefs of Staff, told Bush that the military could accept a 20-percent reduction in ground forces and a 15-percent cut in combat aircraft. After this, despite the fact that Secretary Baker supported fixing the level of reduction at 25 percent, Bush made a final decision to accept the lower yet safer reduction level proposed by the military. In another

example, when domestic advocates of the deployment of MX missiles and advocates of the deployment of mobile Midgetman missiles were locked in a stalemate, Bush decided to allow projects to begin on both missiles at the same time.

### A Policy-Making Organization in Which the White House Retreats, While the Power of the Cabinet Flourishes

The Bush administration's foreign policy-making organization also has its own distinctive traits related to the salient features of the policymaking process described above. Its overall nature is that the White House accepts significant restrictions, and the "center stage" role of the Cabinet departments has been reinforced. There is no clearer manifestation of this than the curbing of the trend seen since World War II whereby within the U.S. foreign policy-making establishment the position of the National Security Council and its staff, as well as that of national security adviser, have been ascendant, while the positions of the State Department and the secretary of state gradually declined.

In the more than 40 years since the establishment of the National Security Council in 1947, its position within the U.S. foreign policy-making establishment has continuously gained in prominence. On the other hand, the department traditionally responsible for foreign relations, the Department of State, and its head, the secretary of state, have, in the process of foreign policy decision-making, at times seen their position in the implementation of foreign policy gradually reduced. These two tendencies reached their peak in the Nixon and Carter administrations. At that time, the most influential figures in the U.S. foreign policy-making process, with the exception of the President, were the President's national security advisers, Henry Kissinger and Zbigniew Brzezinski, and the importance of the secretaries of state, William Rogers and Cyrus Vance, paled in comparison. They were seldom noted by the public at the time or mentioned later on. Reagan at one point attempted to reverse this trend, but perhaps he put too much faith in his trusted followers at the White House, and his wishes were not fulfilled. Instead the National Security Council staff became involved in illegal activity, and nearly destroyed Reagan's political life in the Iranagate scandal.

After Bush took office, he was determined to strike a balance between the relations of the National Security Council and the State Department in the U.S. foreign policy-making process, and he strengthened restrictions on the jurisdiction of the National Security Council staff. At the same time, he appointed Scowcroft, a former member of the Tower Commission, which had investigated the Iranagate affair, to be his national security adviser and reduced the number of specialists on the National Security Council staff from 70 to around 50. After one year under this new situation Bush has

achieved some success, and Scowcroft is basically serving only as an "honest middleman" between the President and the Cabinet.

In contrast to the experience of the National Security Council, in the first year of the Bush administration, the State Department and the secretary of state, who since World War II had seen a continuous depreciation of their foreign policy decision-making and implementing functions, have had these functions reinforced. Secretary Baker and President Bush have established an excellent working relationship. The Bush administration has basically decided that, in addition to the President, only the secretary of state can represent the position of the U.S. Government when it comes to questions of U.S. foreign policy. In an especially notable incident in October 1989, at the behest of State Department specialists, Baker held back the text of a speech by deputy national security adviser Robert Gates that Baker thought could lead the Soviet Union to misunderstand the U.S. position. This unusual action clearly illustrates that the positions of the State Department and the secretary of state have been restored. Another example is the problem of Panama, which has been a very thorny foreign policy issue for the Bush administration. The National Security Council member who had the best understanding of Latin American affairs, Buligesi [1580 6849 2706 2448], resigned due "in part to the fact that he had had a longstanding disagreement with assistant Secretary of State Bernard Aronson on the question of U.S. Government policy toward Panama and support for Manuel Noriega's anti-U.S. military organizations." It must be pointed out that in the past, when the President's national security adviser and his staff had policy differences with the secretary of state and his subordinates, the latter frequently had to be content to play second fiddle and muddle along, for example, in the case of Rogers. Or they would simply go off in a huff, and find better employment elsewhere, like Rogers and Alexander Haig. The eventual deterioration that emerged from this situation cannot have failed to have left a deep impression on the Bush team.

#### Bush's Policy-Making Style and an Appraisal of the Bush Team

In evaluating Mr. Bush, U.S. Treasury Secretary Brady stated that Bush "has no interest in many things for which he can see no hard reality," he "has no desire to engage in a great deal of small talk and exaggerated theoretical discussion," and he "likes to make decisions on a certain number of real problems." It is evident from this description that Bush likes to deal with concrete matters related to work and does not like to discuss principles or ideological guidelines. When making policy, Bush always prefers to "analyze each problem and its many aspects," and is willing to listen to a variety of opinions and suggestions. Allegedly, Bush's greatest skill is "to allow those holding opposing viewpoints to get together." In connection with this, when handling knotty problems, he is especially adept at bringing these opposing viewpoints into harmony. As a youth Bush

often talked about "reaching the middle," and there are those who believe that this is still a characteristic of his. When he has to make a final choice, he displays the fact that he is a "cautious and passive president, and when facing a crisis, he is most concerned with not making mistakes." In terms of his personal experience, Bush has abundant experience and personal exposure in the sphere of foreign affairs, having served in such posts as UN ambassador, director of the liaison office in China, and director of the Central Intelligence Agency. This has certainly affected the evolution of his policy-making style.

The aspects of the Bush administration's foreign policy decision-making described above weaken to a certain extent the leading position of the President in foreign relations, and even though public opinion is clearly overwhelmingly in support of Bush's policy toward the Soviet Union, in Congress there are many who feel that the Bush administration has not yet been able to propose an active and effective policy in light of the changes occurring in the international situation. In addition, allies of the United States also feel leaderless, as though they have no choice but to go their own way, making it difficult for the Western countries to formulate a consistent policy position for dealing with problems of East-West relations. Although in May 1989 Bush proposed his so-called "beyond containment" strategy, in substance it contains no themes or conventions that depart from those of the cold war. Until October 1989, government decisions made by Secretary Baker in terms of change in the Soviet Union and Eastern Europe were fairly clear-cut and quite principled, but on the major questions of how the United States should handle East-West relations and relations with its NATO allies, people still feel that the necessary leadership has not been forthcoming.

From the viewpoint of foreign policy organization, the first year of the Bush team was basically an orderly one, a circumstance which was in contrast to the chaotic situation in the first year of the Reagan administration. Although Reagan achieved splendid results in terms of foreign policy, his foreign policy team was by no means praised, and particularly in the aftermath of the Iranagate incident, its reputation took a precipitous fall. Drawing lessons from these mistakes, during his first year in office Bush has placed quite rigorous restrictions on the working staff of the National Security Council in terms of number of personnel and function, and the position of the Cabinet departments, both theoretically and in reality, has once again been affirmed.

But the events surrounding the toppling of Panama's Noriega in one sense reflected the fact that the reduction in the National Security Council's working staff could also have a bad effect on U.S. foreign policy. One high-level U.S. Government official said that during and after the operation, National Security Council members "had too many problems to cope with," and "the council has a very small working staff." In addition, some feel that "the problem with the current administration is that

in terms of manpower and procedures it has intentionally greatly reduced the function of the National Security Council," and that "there was the problem of whether or not the number, category, and capabilities of the National Security Council staff members involved in the Panamanian operation were adequate for coordinating U.S. policy vis-a-vis this difficult situation." The seriousness of this problem has also forced Scowcroft "to have no choice but to carefully consider what, in fact, are the implications of having too few working members of the National Security Council and having excessive restrictions." Future expansion in the number of personnel and the functions of the National Security Council is an event that cannot be ruled out, considering that the past several U.S. Presidents during their first year in office stressed the need to reduce the National Security Council's working staff and the functions of the national security adviser, and stressed the foreign policy coordination function of the State Department and secretary of state, it often happens in the second year that the National Security Council staff again begins to assume a more important position, thus purposefully or unintentionally depreciating the function of the secretary of state. If this occurs, new changes could well emerge in the Bush administration's foreign policy-making organization and procedures.

## SOVIET UNION

**Soviet Ballet Troupe To Perform in Jilin**  
*SK2404023690 Changchun Jilin Provincial Service  
 in Mandarin 0930 GMT 16 Apr 90*

[Text] On the afternoon of 16 April, a news briefing was held in Changchun for the performance to be staged in Jilin Province by the visiting Soviet (Yasike) state music and ballet troupe. This ballet troupe will stage its first performance in Changchun on 29 April. During its stay in Changchun, this troupe will perform the ballet operas entitled the "One Thousand and One Nights" and "Adam and Eve." The current visiting performers were invited by the provincial cultural department and the provincial (Nongqi) (Beifang) integrated company, sponsored by the provincial cultural department, and undertaken by the provincial performing company with the coordination of the provincial (Nongqi) (Beifang) integrated company.

After staging five performances in Changchun, the Soviet (Yasike) state music and ballet troupe will go to Jilin City to continue its performances.

## NORTHEAST ASIA

**Japanese Military Growth Discussed**

### Features of Present Growth

*90ON0434A Shanghai GUOJI ZHANWANG /WORLD OUTLOOK/ in Chinese No 2, 23 Jan 90 p 17*

[Article by Zhao Zongjiu (6392 1350 0036) and Gao Yinkun (7559 6892 0981): "Japan's Annual Defense Expenditures Break the 4 Trillion Yen Mark for the First Time"]

[Text] On 29 December 1989, an ad hoc meeting of the Japanese Cabinet formally decided on the government's 1990 budget, including defense expenditures totaling 4.1593 trillion, which broke the 4 trillion yen mark for the first time. Its 6.1-percent increase was the highest of the past four years. Seemingly beyond expectations, actually, if one looks at Japan's midterm (1986-1990) preparedness plan of defense force, one will find this is purely within expectations.

At the end of 1985, the former Nakasone cabinet proposed the 1986-1990 midterm preparedness plan of defense forces calling for defense expenditures totaling 18.4 trillion yen. According to this plan, Japan's defense expenditures were to increase by an annual 5-6 percent. However, during the 4-year period between 1986 and 1989, defense expenditures would total only 14.4836 trillion yen (an annual 3.3435 trillion, 3.52 trillion, 3.7003 trillion, and 3.9198 trillion yen, respectively). In 1990, the final year, they would reach only 3.9164 trillion yen in accordance with the original plan. However, not only was this amount insufficient to satisfy Japan's steadily expanding arms needs, it was even 3.4 billion yen less than the defense budget for the previous year, never mind maintaining a 5-6 percent annual increase.

Japan's Air Self-Defense Force is currently equipped with 106 F-15 fighter planes and eight E-2C "Hawkeye" early warning aircraft, and plans call for the purchase of an additional 28 F-15 fighters and five E-2C "Hawkeye" early warning aircraft. This will increase the number of F-15's in each of seven squadrons from 18 to 22, and bring the total number of early warning aircraft from eight to 13. Plans also call for equipping the Air Self-Defense Force with KC-1 30-ton "Titan," or MD-11 midair-refueling aircraft to increase the combat radius of the F-15 fighters. During the 1990's, the Ground Self-Defense Forces also plan to buy between 600 and 800 Model 89 battle tanks, which are similar to the U.S. M-1, and to complete the changeover of air-defense missiles, the "Patriot" air-defense missile accounting for 90 percent of the total. It also plans to purchase updated intermediate-range air-defense missiles to increase homeland defense capabilities. The Maritime Self-Defense Force ultimately wants to increase the number of its P-3C antisubmarine aircraft to 100, and to complete the equipping of its four "8.8" fleets, which are made up of eight large modern destroyers and eight shipboard helicopters, plus two or three light aircraft carriers, as well as more than 30 submarines each, the number of large and medium-sized surface vessels and submarines thus numbering more than 80, with a total tonnage of 500,000 tons. Without attendant defense expenditures, these arms-modernization plans cannot be completed. Therefore, basically speaking, Japan's present maintenance of a high defense budget is completely in keeping with ever-increasing military expansion needs, and not subject to change by subjective will.

Yet another cause for concern is that since the Japanese defense budget construes defense expenditures in the

narrowest possible way, it does not include some of the items included in calculating the military expenditures of NATO countries, such as external military assistance payments, expenses of the National Safety Agency as paramilitary expenditures, expenditures of other than national defense agencies for military purposes, and expenditures for retired servicemen's old-age pensions and disability pensions. Were military expenditures calculated by using the methods of NATO countries to include these expenditures, Japan's defense expenditures would be between 1.2 and 1.3 times the published figures. Thus, Japan's actual military expenditures long ago broke the 4 trillion yen mark. Statistics from experts concerned show Japan actually spent more than 4.5 trillion yen on defense. Estimates call for Japan to spend at least 4.8 trillion yen on defense in 1990, and possibly a maximum of close to 5.4 trillion yen. Only by reaching such a level of defense expenditures can Japan's medium-term defense force preparedness plan get off to a good start for the next five-year defense force preparedness plan beginning in 1991.

Therefore, the impetus toward increase in Japan's defense expenditures will continue over the next several years. The officially announced defense budget of more than 6 trillion yen by the year 2000 is also not impossible, and actual defense expenditures will be close to 8 million yuan.

#### Warning Against Military Potential

90ON0434B Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 2, 23 Jan 90 pp 18-20

[Article by Chen Jiehua (7115 3381 5478): "Japanese Defense Perspective"]

[Text] Accompanying the rapid growth of Japan's economic might has been a quiet strengthening of Japan's military power. That Japan's military expenditures are third highest in the world is common knowledge, but the changes that have taken place in the weapons, equipment, personnel organization, and strategic thinking that make up Japan's military power are something new.

#### What Is Meant by "Minimum Defense"?

The vague and ambiguous nature of the Japanese language is well known. Consequently, when I began to write this article, the first thing I thought about was the extremely ambiguous character of Japanese defense concepts. Section II, Article 9 of the Japanese Constitution explicitly provides that Japan "not maintain land, sea, or air forces and other combat forces." So what are its Ground, Maritime and Air Self-Defense Forces? The Japanese Government has repeatedly solemnly declared that Japan's Self-Defense Forces are only a "minimum" self-defense force, but what is meant by "minimum"?

It is generally known that the imaginary enemy in the defense of Japan has always been the USSR. Because the United States provides Japan a "nuclear umbrella," Japan currently has no explicit plans for deploying

nuclear forces to resist the USSR's armed forces. What Japan aims to do is develop sufficient conventional arms to oppose Soviet conventional military forces in the Far East. This is what is meant by "minimum" defense forces.

The gap between Japan and the USSR in conventional weapons in the Far East is constantly narrowing. Soviet armed forces in the Far East number 390,000 men. Japan's Ground, Maritime, and Air Self-Defense Forces number 274,000 men, plus another 49,000-man reserve defense force. Without counting the 49,000 U.S. military forces in Japan, Japan already has 323,000 men in its defense forces. The USSR's armed forces have more than 2,000 aircraft and 440 naval vessels of all kinds in the Far East, and Japan's Maritime, Ground, and Air Self-Defense Forces have 1,450 aircraft and 476 vessels. If the aircraft and ships of U.S. forces in Japan are added in, this produces a balance with Soviet forces in the Far East.

#### High-Quality Weaponry

The rapid development of Japan's economy and the increase in its defense expenditures provide a solid material basis for defense. During the 10 years between 1950 and 1960, before its economic takeoff, Japan's defense budget expenditures were always kept at a low level of between 130 billion and 150 billion yen. With Japan's economic takeoff, its defense expenditures ratcheted upward. In 1961, they leaped to 180 billion yen; to 56.95 billion yen in 1970; to 2 trillion yen in 1979; and to 3.9 trillion yen in 1989, or approximately \$30.7 billion.

Half of Japan's military expenditures are for weapons "hardware." A look at the allocation of defense expenditures for 1989 shows 28 percent for the purchase of arms (1.092 trillion yen, the equivalent of \$8.4 billion), 13.3 percent for training, 2.1 percent for research and development, and 9.5 percent for base security, for a total of 55.7 percent.

A look at statistics on Japan's arms reveals a striking feature, that is, not a rapid increase in the the number of arms, but an extremely high replacement rate. In recent years, Japan's total number of tanks has remained stable at between 1,100 and 1,200 odd, but more than 50 are replaced each year. It has 170 naval vessels, seven to 10 of which are replaced each year. Each year, between 30 and 60 of its aircraft are replaced. The replacement rate for ground-to-air missiles is even higher, almost one-seventh of them being replaced annually. Take the advanced F-15 fighter aircraft, for example. The number increased to 155 from the 100 originally ordered, only to be increased again to 187 in 1982. However, the F-15's ground-attack capabilities and its electronic information-processing capabilities were improved, and it was fitted with midair refueling equipment to increase its operating radius.

Japan used its developed industry and its science and technology to produce the most advanced P-3C early

warning airplane. In 1977, the Defense Agency suddenly increased the number of P-3C aircraft from the 45 originally ordered to 75, and increased the number again to 100 in 1992.

In the realm of reconnaissance and surveillance, Japan has established an around-the-clock surveillance system centering on OTH radar and the P-3C and F-4EJ aircraft. In the area of attack methods, as soon as an intruding enemy is discovered, an attack can be launched using the most advanced F-15 and F-4E fighters for interception, or by using ship-to-air, ship-to-ship, ship-to-submarine, ground-to-air, and ground-to-ship missiles. An extremely complete three-dimensional defense system can be said to be in place.

#### **Status of Self-Defense Personnel**

The other half of Japan's defense expenditures are used for Self-Defense Forces personnel. Personnel expenditures as a percentage of total defense expenditures have tended to decline in recent years. In 1976, they accounted for 56 percent of self-defense expenditures; in 1989, they accounted for 42 percent.

As was said earlier, Japan has its eyes on the USSR super military target in arms matters, and it requires that Self-Defense Forces personnel master ultra-advanced U.S. and Soviet weapons and have a full understanding of the world, and that the adversaries to be dealt with are the potential threats that exist in the world. Thus, Japan has established an intermediate- and low-level education system and a comprehensive high-level educational system in which there is an extremely fine specialized division of labor. Take its Ground Forces, for example, which have 15 different schools, including a cadre school, an antiaircraft school, an aviation school, a military installations school, a signals school, a weapons ordnance school, a transportation school, a reconnaissance school, a medical school, and a chemical school. These schools train mostly medium-to-low rank self-defense officers. Above them is what has been termed the "generals' cradle" Defense Forces University. This university is divided into two departments—culture and the natural sciences. First- and second-year students study basic courses. Principle subjects are culture, philosophy, history, mathematics, physics, chemistry, politics, economics, psychology, law, meteorology, physical geography, the humanities, management, international relations, strategy, foreign languages (English, Russian, French, German, and Chinese), electricity, mechanics, and civil engineering. It is not until after entering the third year that training is divided among the Ground, Maritime, and Air Forces. In training and education, Japan spares virtually no effort. The training of an F-1 pilot, for example, takes four to six months and costs 290 million yen. Training an F-15 pilot costs as much as 450 million yen.

One important feature that distinguishes Japan's Self-Defense Forces from foreign military forces is the extremely high ratio of cadres. In 1988, for example, the

formal table of organization of the three Self-Defense Forces totaled 273,000, more than 247,000 of whom were cadres.

On the streets of Japan, one sees corporate personnel wearing Western clothing and leather shoes everywhere, but rarely does one see uniformed Self-Defense Forces personnel. When most Self-Defense Forces personnel leave their barracks, they are in the habit of changing into civilian clothes. They feel embarrassed about wearing a uniform. This has to do with the bad impression remaining from the old prewar army. One contemporary reason is that Japan's Constitution provides no basis for the existence of its armed forces; consequently, for quite some time after the establishment of the Self-Defense Forces, most Japanese, particularly opposition parties, felt that the existence of the Self-Defense Forces was illegal. Furthermore, the income of the Self-Defense Forces is much lower than for civilian work. Even though the wage level of the Self-Defense Forces is the highest in the world in international terms, inside Japan, the wages of self-defense personnel are one-third to one-half as much as for people in business having the same education and of the same age. The writer has a friend who is a colonel-rank cadre with a doctor's degree, but his wages are only a little more than 300,000 yen. Once, when he was a little tipsy after drinking, he mentioned this and said unhappily that when he was in college, several of his classmates who did poorest went into civilian corporations and their salaries were higher than his. Their low socioeconomic status makes self-defense personnel feel inferior to other people. In administering its Self-Defense Forces, Japan carries out a system of "civilian rule." Civilian officials hold absolute authority over the Self-Defense Forces. A friend of mine in the Self-Defense Agency told me that in the Self-Defense Agency, even a low-ranking civilian official often puts his feet on the table in the presence of a visiting general, treating him matter-of-factly. This shows the position of servicemen in Japanese society.

#### **Losses and the Price Paid for Rebuilding Defense**

For every gain, there must be a loss, and Japan has lost a great deal through the expansion of its armed forces.

First of all, as a small country with scant resources, Japan's deep involvement in the confrontation between the United States and the USSR inevitably carries certain latent dangers, and a resort to arms by Japan and the USSR some day cannot be ruled out. When that time comes, who can ensure that the United States will provide Japan nuclear protection under these circumstances? This also means that, should the United States and the USSR clash, Japan would inevitably become involved, but when Japan and the USSR clash, there would be no guarantee that the United States would protect Japan. Thus, Japan might end up in danger of fighting a war alone against a powerful USSR.

Second, in expanding its armed forces, Japan damaged its own postwar civilization. The greatest characteristic

of this civilization was the road of development of "peace without arms." Japan was a model of how a small resource-poor mercantile country could become one of the richest countries in the world through peaceful means.

Today, however, Japan wants both to develop military forces, and to ensure its "peaceful development" model of civilization in order to increase its influence in international politics and civilization. This is inherently conflicting and contradictory. The result is that each time it expands its armed forces, the government automatically proposes new self-limitation policies and measures, only to demolish them before very long. Such instances have accompanied virtually the entire process of Japan's expansion of its armed forces. For example, when Japan expanded its conventional weapons, in order to get around the apprehensions of neighboring countries in Asia, the Japanese Government put forward the "three nonnuclear principles" in 1968. Subsequently, however, U.S. nuclear warships were permitted to enter and anchor in Japanese military ports, thus turning the three nonnuclear principles into 2-1/2 principles. Furthermore, the government's explanation of nuclear weapons contradicted its own three nonnuclear principles. On 11 March 1978 and on 5 April 1982, the Legislation Bureau chiefs Sanada and Kakuda announced the government's formal proposals in the Diet as follows: "Maintenance of the minimum strength needed for defense. Neither nuclear weapons nor conventional weapons are forbidden by the Constitution." "So long as nuclear weapons are within the minimum limits, if they are needed, they may be maintained."

The most well-known instance of "words not matching deeds" must be the "limiting of military expenditures to one percent of gross national product. In order to allay neighboring countries' apprehensions about the expansion of its armed forces, during the 1970's Japan voluntarily proposed a rule to "maintain military expenditures within one percent of gross national product." However, 10 years later, Japan once again broke this rule.

As another example, the Japanese Government and the military have long made two distinctions between defensive weapons and offensive weapons as follows: One is the range of the weapons, and the second is the power of the weapons. Therefore, during the 1970's, Japan introduced new fighter aircraft while consistently announcing that the operating radius of these aircraft was very small, and also announcing no importation of aerial refueling equipment, in order to demonstrate that Japan's Air Self-Defense Forces had no long-range, continuous-flight offensive capabilities. Nevertheless, beginning in mid-1986, the defense maintenance plan repudiated the previous statements, explicitly providing the "need to give impetus to the study of midair refueling systems such as midair refueling of aircraft, and transport concepts."

As regards weapons power, when Japan introduced new aircraft in the past, it always announced that Japan had

voluntarily dismantled the aircrafts' bombing equipment by way of demonstrating that Japan was interested only in arming for defense. Nevertheless, before long, in its fourth defense plan, Japan decided to equip its new FS-T2 (modified version) support fighters with bombing equipment. The above changes might naturally leave the following two impressions with foreign countries: First, that Japan's defense forces were really developing in an offensive direction inasmuch as current weapons development was of what the Japanese Government had formerly explicitly defined as offensive weapons. The second was that each time that Japan solemnly vowed a voluntary limitation, it unceremoniously broke the vow.

#### Huge Military Potential That Warrants Vigilance

Japan's powerful economic, scientific, and technical strength enables it to appear relaxed and easy-going in the process of advancing toward the goal of high-quality military forces. Japan's Ground Self-Defense Force's weapons are already 100-percent Japanese made, and its Maritime and Air Self-Defense Forces' weapons are increasingly becoming Japanese made.

In 1981, Japan obtained 80.5 percent of its weapons internally; in 1987, it obtained 91 percent of them internally. A huge defense budget enables it to order weapons from domestic companies for the rapid building of an independent war-production and weapons-supply system meeting high standards. Moreover, such tremendous defense production expenditures have had but little negative effect on the Japanese economy. Take 1987, for example, when Japan's war production expenditures were 1.4 trillion yen, but gross industrial output value was 252 trillion yen. This meant that Japan's war production amounted to only 0.58 percent of its gross industrial output figure. Only 7.06 percent of the industrial output value of Japan's shipbuilding industry is for military war industries, only 0.06 percent of its motor vehicle industry's output value, and only 0.58 percent of its electric communications industry's output value. One might say with regard to Japan's military might that it is necessary to look not only at the present quality and quantity of its arms, but even more one should study the huge potential for arms production of its industry, and of its science and technology.

Japan's military expenditures are third largest in the world, but its military expenditures are only slightly more than one percent of its gross national product, almost the lowest in the world. U.S. military expenditures are 6.7 percent of gross national product, and the military expenditures of France, West Germany, and the United Kingdom are 3.9, 3.1, and 4.9 percent, respectively. Were Japan to reach this same level, its military expenditures would triple, reaching \$90 billion, an amount equal to the military expenditures of the United Kingdom, France, and West Germany combined. In Europe, where military expenditures run from three-five percent of gross national product, the economy of each country moves along nicely. In other words, were Japan to increase its military expenditures to the level of

Europe, that would also not negatively affect its economy. Such a powerful economic and military potential for development cannot but arouse vigilance.

### Mongolian Government Condemns Opposition Activities

*OW2804090390 Beijing XINHUA in English  
0801 GMT 28 Apr 90*

[Text] Ulaanbaatar, April 28 (XINHUA)—The Mongolian Government today condemned the opposition Democratic Union and Democratic Party for conducting activities seriously violating law, according to the party organ "UNEN."

In a statement carried by the newspaper, the government said the activities organized by these opposition forces were aimed at usurping power and constituted a crime of jeopardizing the state directly.

About 3,000 people participated in a rally called by the opposition parties at the central city square of Ulaanbaatar on Friday without city government authorization, the statement said.

They spread rumors, encircled government buildings in an attempt to disrupt the work there, and disturbed the people's peaceful life, the statement said.

The newspaper at the same time reported that many people have sent letters and telegrams to the country's Great People's Hural [parliament], demanding legal action for further such activities.

The government on Friday called in 400 to 500 police and military troops to protect the threatened office buildings and the troops are still there, the newspaper said.

### Anti-U.S., Seoul Regime Rally in South Korea Noted

*OW2504012690 Beijing XINHUA in English  
0752 GMT 21 Apr 90*

[Text] Pyongyang, April 21 (XINHUA)—60,000 people in South Korea held rallies and demonstrations against the United States and the South Korean authorities Thursday, according to reports from Seoul.

These activities were marking the 30th anniversary of the "April 19 popular uprising" of 1960, in which the South Korean people overthrew the U.S.-supported Syngman Rhee regime.

U.S. troops have remained in South Korea since the end of the Korean War in 1953. Their doings there gravely hurt the pride of the South Korean people.

Buoyant with strong anti-U.S. sentiment, the demonstrators termed the Seoul regime as a "pro-U.S. regime" and the ruling Democratic Liberal Party a "pro-U.S. force".

Some 600 demonstrators were reportedly detained.

### SOUTHEAST ASIA/PACIFIC

#### Asian-Pacific Situation in 1990's Viewed

*90ON0401A Beijing GUOJI WENTI YANJIU [INTERNATIONAL STUDIES] in Chinese No 1, 13 Jan 90 pp 5-9*

[By Tao Bingwei (7118 3521 5588)]

[Text] The nineties will be a transitional decade of historical significance for the Asian-Pacific region. Given the huge changes that occurred there during the eighties, international relations in the Asian-Pacific region could bring about a brand-new situation in the nineties. The period will prepare this globally prominent region for entry into the 21st century.

The Asian-Pacific region is both a contradictory convergence of many diverse regions and an intermingling of a variety of forces. After the end of World War II, it underwent a long period of turbulence, division, and reorganization. In the seventies and eighties a pattern of international relations was formed, and by the end of the eighties, repeated changes were taking place.

In recent years, despite the shadow of the U.S.-Soviet rivalry that has enveloped the region and become the principle threat to its peace, security, and stability, the status of the United States and the Soviet Union there is clearly on the wane and their ability to control the situation declining. They have been forced to adjust their respective strategies and foreign policies, to seek dialogue and detente with their adversaries, tighten up alliances, and win over friends in order to maintain their advantageous positions.

On the other hand, a trend toward detente and dialogue is developing. Forces safeguarding state sovereignty, independence, and regional peace are clearly growing. Hot spots are generally cooling off, and danger zones are becoming less dangerous. The Soviet Army has now left Afghanistan. A political solution is now being sought to the Cambodian question. The prospects for a multilevel, multichannel dialogue for the Korean peninsula are excellent. Sino-Soviet relations have been normalized. Sino-Indian relations have improved to a certain extent. Diplomatic relations are also being resumed between China and Indonesia. Unity and cooperation within ASEAN are somewhat stronger. At the same time, many of the economies of the states and regions are vigorously developing, including such successors to Japan as the "four little tigers" and the ASEAN countries, where the economies are taking on a whole new aspect. China's great success with reform and the opening to the outside has caused people to take notice. The economies of the region are, as a result, the most prominent and dynamic on the globe. Since the eighties, the average economic growth rate for the Asian-Pacific region was the world's highest. In 1988 it was eight percent, more than double that of the European Community. At present, the economic output value of the region is over half that of the

worldwide total output value. The movement of products, funds, and technology is constantly expanding. Foreign trade volume for the region is now a third that of total volume worldwide. In 1988, trade volume between Asian-Pacific countries and regions exceeded \$200 billion. Various forms of cooperation and exchanges both within the region and outside it are being actively pursued at an ever-increasing pace, especially the trend toward regional cooperation and the formation of economic blocs. Various types of regional cooperation organizations are being perfected, formed, or considered. The circumstances described here have injected new, positive factors into a regional situation that is developing toward detente, stability, and prosperity.

Thus, the Asian-Pacific region has already begun to enter the new period where, all over the world, confrontation is shifting to dialogue, and tension is tending toward moderation. It can be said that, although there are still tensions, confrontations, and instability, many countries will gradually be promoting dialogue and detente in the direction of conciliation and cooperation and, to differing degrees, through economic and political changes and policy adjustments both domestically and abroad, they will be striving to achieve the prosperity and development of the region for their own countries, by participating in international competition and cooperation.

Given this background and with peace and development being both the urgent desire and the primary task of the majority of the countries in the region, as well as with the great powers scurrying to achieve advantageous positions to focus their competitive struggles mainly on overall national capabilities, the international relations of the region are beginning to shift to new patterns.

If, entering the nineties, circumstances develop smoothly, and especially if there are no chance factors or sudden events sufficiently large to affect the situation of the region as a whole, then the Asian-Pacific region will be dominated by two major trends. These are the trend toward dialogue, detente, reconciliation, and cooperation and the trend toward change, adjustment, competition, and development. As an accompaniment to this, international relations in the region could gradually see the development of a new situation characterized primarily by the following three aspects.

1. Increasing pluralism in the political situation. The Soviet Union will step up its new Asian-Pacific strategy of bringing its influence to bear on the area as a whole. The United States will do all it can to safeguard its original position and vested interest in the area and to prevent penetration by Soviet influence. Thus, the U.S.-Soviet adversarial situation will not change. The international relations of the region will hinge less and less on U.S.-Soviet relations and more and more on the status and role of other countries of all sizes. The large countries will work both to expand their own influence and to restrict that of the other large countries. The contradictions and frictions between the large developed countries

and the United States will increase. They will become less respectful of the United States, and some countries such as Japan will even achieve equal footing with the United States. The majority of the Asian-Pacific countries will not accept the leading role of any one large country. Even more developing countries will free themselves of the influence of the superpowers and certain developed countries. They will strengthen their independence and their own initiative and take an active part in regional affairs. Their influence and authority will also become greater and greater. This in turn will restrain the superpowers and certain developed countries and force them to pay attention to or think twice about their interests, views, demands, and suggestions vis-a-vis developing countries. As a member of the Asian-Pacific group of nations, China will make further efforts to play an active role appropriate to its proportional weight.

2. A military situation that focuses on defense. The United States and the Soviet Union are still the strongest superpowers in global military might. Although their military deployments in the Asian-Pacific region are, overall, second only to those in Europe, some branches of the military they deploy in the region are not inferior to those in Europe. Following the further development of detente between the United States and Soviet Union, the strategic posture of both sides in the region will shift to an emphasis on defense. At the same time, the nuclear weapons, missiles, and even conventional forces they have in the region will also be further reduced. The vast majority of Asian-Pacific countries want to maintain a peaceful climate to develop their economic needs, and, despite differing levels of military strength, they will all adopt national defense policies of a defensive nature. Japan's military strength continues to develop. Its military expenditures are now third in the world. And its advanced science and technology will enable it to possess sophisticated weapons if the need arises. World opinion is widely concerned about Japan developing from an economic power to a political power and to a military power and is keeping a close watch on this trend. However, because of various restraining factors both domestically and from abroad, Japan will not, at least in the nineties, essentially change its present policy of "special defense."

3. An economic situation of both competition and cooperation. During the nineties, there will not be any great fluctuations in the growth of the economies of the Asian-Pacific region. At the most, there might be some slowing down. The region, however, will still maintain its global lead. The Asian-Pacific region will simultaneously continue to become a center for world economic growth and be one of the two large economic centers worldwide, side by side with the Atlantic-European region. The Asian-Pacific region includes the economic powers of the United States, Japan, and the Soviet Union, as well as some developed countries. The focus of U.S. economic development continues to move west. Its regional trade volume and investment volume will exceed that of Western Europe. Japan's economic trade

activity in the region has been unprecedentedly dynamic. Its trade relations with various countries in the region will be further intensified and expanded. The Soviet Union will consider the development of economic relations with the region as a breakthrough in the realization of its new Asian-Pacific strategy. The other developed countries will also vigorously expand economic trade in the region. The "four little tigers," ASEAN countries, and other developing countries will play an even greater role in the economy of the region. On the basis of doubling its national total output value compared to 1980, China has decided to again double its total output value by the end of the century. In the process of achieving this objective, China will necessarily have to strengthen its economic trade and cooperation ties to the Asian-Pacific region. When Hong Kong reverts to the motherland in 1997, its economic unification with the mainland will be characterized by certain specific features. Because of this, much more will be done on the Asian-Pacific economic stage. Because the economic ties of Asian-Pacific countries and regions are becoming gradually closer and because their mutually beneficial relationships are becoming more numerous, their mutual dependence is likewise gradually on the increase. In view of the bilateral and multilateral cooperation that is so obviously helpful to everyone's economic development, the prospects for economic trade cooperation in the region during the nineties are even broader. Following the shift to multipolarization of the world economic situation and the further development of the trend toward regionalization and the formation of economic blocs and confrontation in the nineties with commencement of the West European unified market and the U.S.-Canadian free trade zone, Asian-Pacific countries and regions will have a greater interest in carrying out exploratory talks and consultations for taking appropriate action to determine whether they can achieve organizational cooperation to meet these serious challenges. Even if they cannot establish organizations of economic cooperation, they will at least be able to make some progress on the basis of their present forms and bring forth some new ideas. However, the process of becoming dependent on each other and strengthening cooperation will be thoroughly permeated with intense competition. Generally speaking, the amount of profit derived from the region's economic trade activity will for the most part determine success or failure in this competition. Thus, the various countries and regions will be doing everything in their power to become highly efficient through competition. Competition can spur economic development and lead to new means of cooperation in the new situation.

The three major components of the new situation of international relations in the region mutually affect each other and are mutually complementary. Although the role of politics and the military will still carry weight, it will, because of new historical trends, be manifested somewhat differently. At the same time, the role of economic and scientific and technical factors will increase tangibly. Under this new set of circumstances,

the strategies and policies of the various countries of the region to safeguard the security of each of their own countries will focus more and more on comprehensive factors, including such various aspects as military affairs, politics, diplomacy, economics, science and technology, and culture.

The new situation in international relations that can be foreseen for the Asian-Pacific region during the nineties has major significance for development and change in the region and even for the world situation.

1. A pluralistic political situation means that hegemonism and power politics will increasingly lose out in the region. Since the war, the Asian-Pacific region underwent a number of major events. If we trace these to their source, we find that they were all linked to hegemonism and power politics promoted by the superpowers and a few other countries with hegemonic ambitions. The Korean war, the Vietnam war, the Afghan question, and the Cambodian question are proof of this. As early as the first part of the fifties, there were indisputable facts proving that the promotion of hegemonism and power politics would certainly end badly. Nevertheless, the superpowers and a few other countries with hegemonic ambitions still clung obstinately to their course. The results are there for all to see. Of course, the reason hegemonism and power politics lost out in these places is because the countries and peoples involved fought bloody battles, courageously resisting aggression, and because the international community righteously took the side of the victims by opposing and condemning the actions of hegemonism and power politics. In addition, the vast number of instances involving struggles for independence and opposition to outside interference also show that hegemonism and power politics were everywhere being rebuffed. For these reasons, the present political situation in the Asian-Pacific region and the pluralistic political situation that will gradually manifest itself in the nineties, in a certain sense, are also the result of the common struggle of the vast majority of countries in the region and especially of the developing countries there. In the new pluralistic political situation, whoever openly or otherwise attempts to promote hegemonism and power politics is sure to be censured by the public, and whoever shows disrespect or disregard for the sovereignty and independence of other countries is sure to land in a passive position.

2. A military situation that emphasizes defense could maintain peaceful conditions in the region for a relatively long time. The region does not have military blocs confronting each other. However, the military confrontation between the United States and the Soviet Union in the Asian-Pacific region has long been the main source of tension there. The several local wars that have occurred in the region have without exception had a U.S.-Soviet backdrop. Some were direct incursions by them. Nevertheless, the United States and Soviet Union avoided head-on clashes. As they continue their dialogue and move toward detente in the nineties, the United States and the Soviet Union, although preserving their

military forces in the region and continuing their rivalry, are even less likely to clash head on. After the Afghan and Cambodian questions are settled, in view of the historic lessons, it will probably be difficult, once they have weighed the advantages and disadvantages and considered their own strengths, for the United States, the Soviet Union, or certain other countries to intervene again or carry out military incursions in the event something happens in a country. Given these circumstances, a relevant course of events generally would not evolve into a large-scale armed conflict or into another new international local war. There still exist dangerous elements in the situation on the Korean peninsula. Nevertheless, relative peace has been maintained there since the end of the Korean war. The new situation in the Asian-Pacific region will induce the relevant parties to continue to mitigate the situation on the peninsula, thereby causing a further shift toward improvement. For these reasons, the Asian-Pacific region should be able to preserve basically peaceful conditions throughout the nineties and into the 21st century.

3. An economic situation marked by both competition and cooperation will be beneficial to the region's common development and prosperity. After the war, the economy of the Asian-Pacific region in reality reflected the international politics and strategic relations of the cold war period. Economic trade was frequently used by certain countries and especially the superpowers as a major means to control or contain other countries. Competition and cooperation were carried out to varying degrees mainly between countries with similar economic systems. Because of strategic considerations, some of the competition was not really competition in the strictest sense of the word, but rather was preferential competition; and some of the cooperation was actually aid-related cooperation or "cooperation" characterized by control in order for one party to impose its views on the other. After the mid-seventies, with the changes in the international situation in the region, the state of competition and cooperation underwent another big change. There then occurred an expansion of economic trade competition and cooperation, not only between countries and regions with similar economic systems, but also between countries and regions with completely dissimilar economic systems. Even though there are some remnants of the irregular "competition" and "cooperation" of the past, they actually are not a major factor. This has benefited the Asian-Pacific countries and regions that are taking part in the economic trade competition and cooperation. During the nineties, it is predicated that there will be continued deepening and broadening of economic trade competition and cooperation over an expanded area, and, at the same time, there will be a vigorous pursuit of new means of cooperation. A high tide of economic trade competition and cooperation could be formed in the region. This could bring even greater vitality to the region's economy and promote common development and prosperity.

4. The new situation will help peace and security in the world. Peace and security in the Asian-Pacific region are

closely connected to peace and security throughout the world. Within the region, while gradually moving toward a multipolar world, the United States and the Soviet Union, the two superpowers; Japan, the country more and more people are referring to as an economic superpower; China, the heavily populated developing country that is becoming more prosperous every day; ASEAN countries, the first in the Third World to realize interregional cooperation and which are playing an ever more important role; the large group of developed countries and developing countries; as well as the region's own economies, whose positions vis-a-vis the world economy have seen obvious changes, if they can develop toward a new situation and a new orientation, this will produce a far-reaching effect on peace and security in the world. If the European region can preserve peace for a relatively long period and if the Asian Pacific area is relatively stable and there are no wars on the Eurasian continent, then the attendant certainty of peace and security throughout the world is hugely increased.

Whether the new situation and new orientation can be relatively quickly and smoothly formed and developed will require the common effort of everyone and depend on a number of various factors. There are a number of detrimental factors that will be a hindrance and even destructive.

U.S. and Soviet moves are worth watching. As long they do not abandon their rivalry in the region, they will inevitably be a factor in threatening peace, stability, security, and development there. Where is Japan headed? Even if it does not become a military power, what kind of political power will it become and what role will it play? Perhaps people's misgivings about this are really not groundless. The United States is pursuing a "beyond containment" strategy whereby Western countries led by the United States are still trying to use such soft tactics as peaceful evolution and interference in domestic politics to subvert socialist countries in the region. This will necessarily evoke vigilance and countermeasures on the part of these countries. Certain countries, mainly the superpowers, are either pursuing policies harmful to other countries and beneficial to themselves or are continuing to attempt to draw other countries into their strategic orbit and make them submit. This will inevitably intensify mutual contradictions and exacerbate the struggle for domination and the resistance to being dominated. During the eighties, some developed countries strengthened their independence and self-initiative, which led to a weakening of military blocs in the region or which produced other small changes. Some of these caused the superpowers a great deal of vexation, and they threatened to take severe measures. The disintegration of the security treaty between the United States, Australia, and New Zealand is an example. Issues pertaining to whether foreign military bases would remain or leave and the stationing of troops became the order of the day. During the nineties, similar situations will only increase, they cannot lessen. When the time comes, we should watch how certain countries, especially the superpowers, act.

At the same time, irrespective if they are developed countries or developing countries, some of the many countries of the Asian-Pacific region will, for various reasons, invariably see political turmoil during the nineties. Border incidents and territorial disputes could also occur between certain of them. In this regard, there will inevitably be foreign influences, mainly from the superpowers, either openly or covertly, although not to the point of military involvement. If the Korean question cannot be settled successfully, it has the potential to be destabilizing. Internationally, there is a widespread, forceful scheme to create "two Chinas" or "one China and one Taiwan." And Taiwan authorities would like to continue pursuing their "flexible diplomacy" in violation of the fundamental interests of the Chinese people. This inevitably will involve China's relations with certain of the countries in the region.

In the economic realm, besides the ability of competition and cooperation to benefit everyone, there are also a series of important questions that are not easy to overlook. The closeness of economic relations and the strength of mutual dependence are frequently interwoven with relations resulting from opposition to control and dependence. This is one of the contradictions in the North-South issue of the region. During the nineties, as a number of countries in the region adjust their industrial structures and progress from a vertical division of labor to a horizontal division of labor, this contradiction will increase. In addition, the superpowers and certain developed countries will to a certain extent openly attempt to use economics to control politics in their relations with Third World countries in the region. Since China put down the counterrevolutionary rebellion in June 1989, they actually imposed "sanctions," including economic sanctions, attempting to make China yield politically. How can we help but think that they will concoct similar stratagems in dealing with other countries in the nineties? Of course, times have changed. "Sanctions" are not likely to force an independent China or other sovereign country in the Third World to abandon its political principles. Ultimately, it will be those imposing the "sanctions" who will be harmed. Nevertheless, we must recognize that this will inevitably produce new contradictions and serious results.

There continue to exist within the capitalist countries themselves inherent and profound economic contradictions. Friction between the countries will only worsen. The economic development of the region is out of balance. Developed countries that depend on economic and technical superiority, unequal exchanges, and debt relationships, as well as transnational companies and monopolistic organizations getting rich from developing countries, will inevitably widen the disparity between North and South and sharpen the contradictions. Trade competition will also give rise to a series of new problems. The struggle between strengthening and opposing trade protectionism will become more prominent. With respect to economic cooperation, the entire Asian-Pacific region is faced with the issue of how to jointly

cope with the challenge coming from other regions, especially from Western Europe. Within the region itself are problems about how to coordinate, which organizational formats to adopt, and with which members to cooperate and what orientation the cooperation should take. There is also the problem of how to handle relations with the original regional organizations and the problem of who should play the leading role, how to determine who is capable, and how they should to be elevated to the role. As an economic superpower, is it possible that in the nineties Japan will pursue economic hegemonism? Will there be U.S.-Japanese rivalry for economic dominance in the Asian-Pacific region or will they unite to jointly pursue economic hegemonism—what some scholars have in recent years termed "U.S.-Japanese joint hegemonism?" In addition, the United States, in the new situation, has even attempted to channel Asian-Pacific regional cooperation into its strategic orbit. The U.S. Government has indicated that the content of its Asian-Pacific policy should be augmented and renewed with appropriate new concepts, which should possess more vitality, a commitment to broader spheres of shared responsibility, and inclusion of economic cooperation. This means that in the nineties the United States will strengthen rather than weaken its presence and rivalry in the Asian-Pacific region.

To sum up, the situation in the Asian-Pacific region will change in the nineties. During this process of complex change, the prospects look relatively good. However, we cannot underestimate the severe twists and turns. In order to promote the development of the situation in the proper direction, we must urgently establish in the region a new international political order and a new international economic order on the basis of the five principles of peaceful coexistence. As a major member of the region, China will, just as its leaders have on many occasions pointed out, work tirelessly for this and make a positive contribution.

#### Burma Says East, West Human Rights Standards Differ

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1336 GMT 19 Apr 90*

[Text] Yangon, April 19 (XINHUA)—The Myanmar [Burma] head of government stressed that human rights cannot be the same with the Eastern countries as with the Western countries, just as their traditions and customs are not the same.

At a meeting held here Wednesday by the State Law and Order Restoration Council (SLORC) and the Committee for Compiling Authentic Facts on Myanmar History, Senior General Saw Maung, SLORC chairman and prime minister of the Army-based Myanmar Government, said that "if we talk about human rights, there is a great difference between one nation and another. Just as traditions and customs of the Western countries are not

the same as those of the Eastern countries, so the human rights cannot be the same", according to a report by the Voice of Myanmar today.

Saw Maung, who is concurrently the minister for defense and minister for foreign affairs, said that rapid changes are taking place in nations of the world including our country today. "In implementing a system, no matter how good a policy is, if the people are not good, it will turn out to be a failure."

The SLORC chairman reiterated that "we will hold free and fair elections on May 27 as we have unequivocally declared."

But Saw Maung noted that "freedom can be divided into two kinds: freedom of the parties and that of the people. There may be restrictions for parties but there are no restrictions for the entire public. We cannot allow a party to do something freely if it affects the freedom of the public."

SLORC Vice-Chairman General Than Shwe, SLORC Secretary (1) Maj. Gen. Khin Nyunt, SLORC Secretary (2) Maj. Gen. Tin Oo and other high-ranking officials were also present on the occasion.

### 'Serious' Logistics Problems Facing Vietnamese Army

HK2204085690 Beijing SHIJIE ZHISHI /WORLD AFFAIRS/ in Chinese No 7, 1 Apr 90 p 19

[Article by Li Yuehong (2621 1471 3163): "Vietnamese Troops Are Faced With Serious Logistics Problems"]

[Text] From late last year to early this year, the logistics department of the Vietnamese armed forces held a series of meetings to specially study logistics support for the armed forces. According to what was revealed at these meetings, although Vietnam's economic condition slightly improved in 1989, there were mountains of problems in the logistics work of the Vietnamese armed forces due to the shortage of military funds, materials, and management disorder. It was said that "the present living conditions of the troops were worse than those in the period of the anti-U.S. war."

According to the general logistics department of the Vietnamese armed forces, the food rations of the troops decreased steadily. The average daily caloric intake of each soldier was a mere 2,700 calories, which was 17.8 percent lower than the standard specified by the regulations. The food for combat troops was generally of poor quality. In a routine examination, it was discovered that in every 17 kilograms of food grain for the troops, there were two kilograms of sand and straw and that the supply of such poor-quality food grain still could not be guaranteed. As a result, "many hungry soldiers had to steal rice and sugar cane from local people." Some military units in the northern region could not offer three meals a day to the troops and could only offer two meals a day. The supply of nonstaple food was even worse, and each

soldier could only get about 170 grams of vegetables a day, or less than four liang [oriental ounces].

At present, the equipment in military hospitals, clinics, and medical centers is obsolete, and "fails to measure up to the lowest standards." Because of the poor medical service and shortage of medicine, soldiers who have had to undergo lengthy wars and were stationed in areas of extreme conditions could not get timely medical treatment when they fell ill, and their physical conditions have seriously deteriorated. In 1989, incidences of such diseases as malaria, dropsy, dysentery, hepatitis, aphtha, gingivitis, and anemia all rose. According to some reports, among the units stationed in cities, the lowest incidence of anemia in a unit was 20 percent, and the highest incidence reached 77 percent. The incidences of aphtha and gingivitis in the troops were generally between 50 percent and 60 percent. In particular, the incidence of malaria increased markedly. In troops stationed in the northern border areas, on the Cambodian battlefields, and in some mountainous areas, the incidence of malaria almost doubled. According to the medical section of the general logistics department, "after a certain unit was dispatched to the mountainous areas, several hundred people contracted malaria in a period of six months, several dozen died, and nearly 10,000 were hospitalized."

Moreover, the armed forces were seriously short of military supplies, and management of military materials was in disarray. According to some reports, the armed forces were faced with serious difficulties in ensuring military supplies because local factories did not deliver goods to the armed forces according to contract. The troops stationed at the front and on islands could only wear worn-out uniforms. The army newspaper also revealed that some troops in northern areas could not obtain winter clothing according to the set standards when winter came last year. Other equipment was also in serious short supply. Some military regions had no choice but to purchase military materials from local civilians in order to meet their urgent needs. Moreover, serious cases of theft of military supplies occurred from time to time. Because of the short supply of fuel, the fuel ration last year for most military units was cut by 30 to 40 percent. In most military units, vehicles could not be used for non-military purposes. Some units could only use carts to replace motor vehicles for transport purposes. Meanwhile, waste and theft of fuel occurred frequently. Many officers and soldiers colluded with lawless civilians in profiteering by selling military equipment and fuel.

A major factor that caused the above-mentioned problems was the shortage of military funds. In 1989, actual military expenses accounted for merely 67 percent of the national defense budget in Vietnam. Due to price increases and other reasons, over 70 percent of the military expenses had to be used for maintaining the lowest possible living standards of the troops, after which little money was left for military training and replenishing military supplies and equipment. Because

the armed forces had no money, they could not carry out their work in many fields. For example, they had no money to build more barracks, warehouses, factories, and docks. Many new units and units being transferred to new places could not build barracks for their troops. The troops could only live in makeshift sheds. The construction of combat command centers and other major military facilities was not up to standard.

More than 200 existing military industrial enterprises run by the Vietnamese armed forces also faced a grim situation in which they might be forced to stop production, go bankrupt, or have their products stockpiled because of the lack of working funds. At present, most factories can only operate at about 45 to 50 percent of their capacity, and the utilization rate of their machines is a mere 35 percent.

The unreasonable rationing system is also a knotty problem for the Vietnamese armed forces. A senior military official said: The wages of junior and middle-level officers are only enough to support one's self and they cannot support their families. The allowances for an ordinary soldier can only be used to buy four bowls of rice noodles on the market. This shows the hardships the troops are facing. More serious is the fact that almost all of the poorest households in the countryside are families of those who serve in the armed forces. It seems that there will be no fundamental improvement in the difficult conditions of the Vietnamese armed forces in the near future.

## WEST EUROPE

### Preview of Dublin EC Integration Summit

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0027 GMT 27 Apr 90*

[“News Analysis: EC Special Summit To Be Held in Dublin (by Wang Shengliang)”—XINHUA headline]

[Text] Dublin, April 26 (XINHUA)—Government leaders from 12 member countries of the European Community (EC) will hold a special summit in Dublin on April 28 to discuss German reunification and European political union.

It has been convened against the background of momentous changes in Eastern Europe and the speeding-up of German reunification. As the first gathering of government leaders of Western countries on this process, the session is expected to have a major impact on the forging of a new European structure and attract worldwide attention.

Why does the EC earnestly initiate such a session only two months ahead of the official summit due in June under the Irish EC presidency? It would seem obvious that the community, propelled by the pace of development in Europe, wants to negotiate a concerted strategy

to adapt to the changing situation and bring the developments onto the track of Western interests.

German reunification, a sensitive issue for both East and West, and which just a few short months ago was regarded as “not on the agenda”, is now gaining momentum towards reality. The 12 EC leaders are expected to seek concrete measures, not merely general reaction, to anchor a unified Germany in the EC. They will discuss ways to adapt Democratic Germany, which has a different system from that of Federal Germany, to the EC and its legislation after reunification.

The EC Commission has already recommended a three-stage scenario to integrate Democratic Germany into the EC, with a completion by 1993.

Arguing that there is no need for a new treaty, the document puts the three stages as follows:

- first, gradual adaptation of Democratic German legislation to that applied in Federal Germany, as well as the EC law, once the inter-German monetary union is in place;
- second, gradual application of EC legislation on a sector-by-sector basis with transition periods;
- finally, firmly sealing the integration of a unified Germany into the community.

These proposals are expected to be discussed by EC leaders at the special summit, which is expected to settle on a final document.

The summit, originally called to discuss German reunification, is also to consider EC political union, a suggestion put forth by France and Federal Germany.

In a joint statement on April 19, French President Francois Mitterrand and Federal German Chancellor Helmut Kohl proposed that political union should be added to the agenda of the summit. The two leaders also suggested that a new inter-governmental conference on political union should be convened, parallel to the inter-governmental conference on economic and monetary union, in an attempt to bring both political and monetary union into effect by January 1993. They had further talks on this during a visit by Kohl to Paris last Wednesday.

But as soon as the suggestion surfaced, it came under strong attack from British Prime Minister Margaret Thatcher, who is opposed to both political and monetary union. Describing it as “esoteric”, Thatcher said she wants to see a Europe of “proud sovereign states” cooperating freely while maintaining their national authority. There are more urgent and practical things to be discussed at the summit, she argued.

Viewing the risk that other EC countries would push the issue of political union onto the road without Britain’s participation, Thatcher, despite her objection, said she

was ready to discuss the issue in order to influence the process from the inside of the community.

British Foreign Secretary Douglas Hurd said, "We want to avoid giving anyone the impression that there will be an empty chair." But he insisted that this did not mean Britain would agree on a centralized government within the EC.

Suggested political union is said to include reinforcing democratic legitimacy, making its institutions more effective, ensuring concerted political, economic, and monetary actions, and a common foreign and defense policy.

After talks with the current EC president, Irish Prime Minister Charles Haughey, on April 20, Thatcher gained a compromise that discussion on political union would only take place over a lunch during the session. Nevertheless,

talks on this subject are expected to attract as much attention as that of German reunification.

In preparation for the special summit, Haughey toured all EC member countries and consulted with their government leaders, and foreign ministers of the community held a meeting in Dublin on April 21. A wide range of topics was set on the agenda, which also includes relations with Eastern European countries and member countries of the European Free Trade Association (EFTA), joint attitude towards the proposed Conference of Security and Cooperation in Europe (CSCE), European Economic and Monetary Union (EMU), and world trade.

Involving so many important issues, the summit is expected to have a great effect on a new European structure. Observers here believe that both agreement and difference, compromise and argument, will all appear as twins, during the summit.

**University Students 'Search for Mao Zedong'**

*90CM0018A Beijing DAXUESHENG [UNIVERSITY STUDENTS] in Chinese No 2, 10 Feb 90 pp 6-15*

[Article by Xin Ming (6580 7686): "On Search for Mao Zedong Fever"]

[Text] On the afternoon of 13 December 1989, our editorial department held a "University Students 'Search for Mao Zedong' Fever Forum." Attendees included faculty and students from People's University, Beijing University, Qinghua University, Beijing Normal University, Central School of Music, China Institute for Sociological Studies, China Institute of Political Science for Youths, Beijing Air and Space University, Beijing Institute of Political Science for Youths, and so forth. Despite having prior important commitments elsewhere, upon learning of it, Comrade Liu Shuli [0491 6615 4409], deputy chief of the Beijing municipal committee's Propaganda Department, and Comrade Yao Wang [1202 2598], deputy secretary of the Beijing municipal committee Communist Youth League, also hurried to attend.

The following are the statements made at the forum.

**Mao Zedong Has Not Died**

Xin Ming [6580 7686], Beijing University Department of Philosophy

After a period of about 10 years, the adulation of Mao Zedong the man which had reached fever-pitch and had even taken on a religion-like fervor and a massive personal cult movement, gradually cooled off. A few years ago, unwittingly or deliberately, political opinion had even come up with an emotional backlash against that time.

Once Mao Zedong's image had begun fading in the hearts and minds of the people, he even began to be adversely misunderstood. Older people who had gone through the trials and tribulations of the 10 years have lingering fears and perhaps cannot help putting a stamp colored by emotion on the times. The young, their minds inundated by every kind of value, are not familiar with him, do not understand him, and ultimately cannot help misunderstanding him.

Whether deliberately distorted or due to mindless misunderstanding, this historical figure has passed on; his time is history. Today, we face a new society, a new time. But just as the decade is fading away in memory, people are discussing Mao Zedong again; particularly attracting attention is the heating up of Mao Zedong fever on the various university campuses. University students are looking for Mao Zedong! His original works, such as *Selected Works of Mao Zedong*, *On Pragmatism*, and *On Contradictions*, which had been gathering library dust, are garnering attention. He is joining Sartre, Nietzsche, and Freud among students' collections. What is even more notable is that Mao's grandson, a history major at People's University, often is at the center of a sizable

group who are listening to him recount stories of his grandfather. Chats with friends reveal that many students on many campuses are about to set up "Mao Zedong Study Groups."...

These may be unexpected developments. Actually, to say this is a new political thought trend may be less accurate than calling it a cultural trend. While it no doubt contains some political expectations and assessments by students, its substance is cultural rather than political. It reflects the attitudes of the students in the following areas:

**1. A New Discovery and Appreciation of Socialism**

After the passing of the storm and a chance to think back calmly, university students finally realized that only through socialism could China be developed. Facing the complexities of reality, they once again appreciate the value of socialism. It must be said that, as our nation's socialist reforms encountered difficulties and Eastern Europe began undergoing senseless changes, the younger generation was bewildered and backed into a corner. They began thinking about Mao Zedong. While there are historical events yet to be assessed, the world has acknowledged Mao Zedong's steadfast adherence to staying on the socialist road, perhaps sometimes overly so, as undeniable fact. In the 1960's, when international communism reached low tide, Mao Zedong, full of pride and enthusiasm, wrote his eight-line verse, *Winter Clouds* (26 December 1962): "Snow pushes winter clouds fluffy on high, Countless blossoms pass on, disappearing in a moment... Plum blossoms love a sky full of snow, Flies freeze to death as a common happening." The determination to stick to the socialist road is clearly expressed. And now, regarding the East European situation, their answer is the quoting of the last two lines above as response, it goes without saying that, in their hearts, Mao's socialist road has become their banner. So, when they march on to socialism, naturally they would think of Mao Zedong. It is rather like "Today we acclaim Sun, the holy monkey king, because the demon fog has returned." So, we can say from this that the search for Mao Zedong is really appreciation of socialism.

**2. The New Eruption and Rallying Call of National Pride**

Although it has been some time since we have practiced "independence through our own initiative, regeneration through our own efforts," which smacked of isolationism (actually Mao Zedong had no choice when confronted by the "cold war" and the imperialist blockade), the sense of nationalist consciousness and pride flourished movingly throughout the period. The entire people of China fought for national respect and prestige with iron will. In 20 years or so of nation-building, China went from a poverty-stricken agricultural nation to a great thriving socialist industrial one, ultimately forcing the anti-China and anticomunist U.S. President Nixon to visit in 1972 and forging the Sino-U.S.-Soviet "triangle strategy." China thus hit the international spotlight. Since the

turbulence of 1989, the unreasonable foreign interference has exerted an objective impact, forcing university students to think hard over the fact that it was hard enough to be a good Chinese, let alone a person of the world. They came to the bitter realization that their previous immature, frenzied conduct had been the affliction of "having been intoxicated by the force of the Western winds so that they almost regarded their homeland to be abroad." Good intentions gave birth to incorrect action, and the fading of national pride created this tragedy. A desire to let the Chinese people stand tall among the peoples of the world prompted them to search for Mao Zedong. So this can be said to be their first step in the effort to "reinvigorate China."

### 3. Return to the Spirit of Bitter Struggle

Arduous struggle was a major characteristic of the Mao Zedong era. When Westerners regarded Mao Zedong's era as an "age of puritanism," they transformed the spirit of bitter struggle into a Western concept, a rather biased view, yet it demonstrated the depth and breadth of the spirit of the struggle. In a certain sense, in the hearts of the young, Mao and spirit of bitter struggle are one and the same idea, plus the fact that Mao led a simple, austere life. Recent unofficial histories, anecdotes, and hearsay abound with stories of this nature. Furthermore, the initial objective for which Mao launched the Great Cultural Revolution was to oppose special privileges and capitalist thought, which converge with the reason for the mass anticorruption, antiprofiteering, and anti-incompetence movement as well as the recent proposals by the party Central Committee to establish clean and honest government. So, the renewed importance that university students attach to Mao Zedong is really a call for the revival of the spirit of bitter struggle.

China does not have ample resources, yet a few years ago it willingly promoted high consumption. By nature man seeks enjoyment, but promotion of such quests should have been based on objective conditions. If one uses everything up today, then what about tomorrow? The masses say, "In the past, we were wont to 'dig a big hole to accumulate a lot of food.' Now it's 'dig for a lot of food, eat up that of our descendants.'" This might be a bit too emotional, but where there is smoke, there is fire. When Comrade Jiang Zemin went to Yanan and Zhingga, he was hoping that, in this new era, we would preserve the "Zhingga tradition" and the "Yanan spirit." In other words, engage in bitter struggle. We are still in the initial stages of socialism, going through some tight years, about to sing out again the pioneering songs. In this kind of atmosphere we should rejoice that the appearance of the "Mao Zedong fever" means that our youths remember the bitter struggle.

### 4. With History's Lessons, Move Upon Society

Only after a wave of turbulence have the university students discovered how little they know about society. They lived in ivory towers from elementary school,

through middle school, and all the way up to the university; their idealism and blind emotion gave society many unnecessary problems. Entering society is the most important problem these students will face. The country promotes their training at the basic level so that they can think of the importance Mao Zedong attached to society and his championing of it.

Of course, the appearance of the "search for Mao Zedong" phenomenon was rather subtle, but we should not worry because of this, because it will never reach that earlier stage of religious adulation and cult worship; history will not repeat itself. It merely attests to the completion of individual and national aspirations to finish an era of reform and opening up. We can confidently say that Comrade Deng Xiaoping's principles of reform and opening up are now firmly etched in the heart of each person.

Philosophy often refers to "denying the denial." Buddhism refers to the "middle road." We can generally consider the "search for Mao Zedong" as reaching the "middle road" after having "denied the denial." To reform and open up yet stay on the socialist road—how is it done? The young think about Mao Zedong.

In analyzing the active factors in this "search for Mao Zedong" phenomenon, another latent reason might provoke our interest: While recognition of Mao's thoughts by the young is still at the rather hazy initial phase, their knowledge of its inner mysteries, its essence, and its flaws is near zero. For example, their view that Mao is the only real representative socialist figure is biased. Mao, of course, was without question the leader of a socialist republic, but some of his thoughts, especially in his later years, are subject to discussion. Yet, Comrade Deng Xiaoping's proposals on reform and opening up and on establishing a socialism unique to China are new contributions and new developments in Marxism and Mao Zedong Thought. To understand Deng, we must make even deeper studies of Mao Zedong Thought. What understanding university students have is obtained largely from such introductory works as *Mao Zedong: Leaving the Divine Temple, A Guard Talks About Mao Zedong, A Leader's Tears, and Mao Zedong's School Days*, which would not give a thorough exposure of his deepest thoughts. What is even more regrettable is that introductory works in the theory field have been rather scarce, even the Mao Zedong Thought Study Institute of the Philosophy Department of prestigious Beijing University exists in name only. Many scholars have switched to other fields. While imported works from the West have gradually increased, these only scratch the surface and can only be superficial.

Forbidden fruit tastes all the sweeter, the mysterious becomes all the more tantalizing. The recent "fever" is connected to the fading emphasis on Mao. We can, and must penetrate the wall of mystery, push aside the veil of secrecy, and present Mao Zedong in his original face; not to worship, nor exaggeratedly debase, only so can we

study him scientifically and realistically. From the historical standpoint, the "fever" is not a normal phenomenon, and one would not lean toward a perennially "feverish" society.

**Food for Thought No. 1:** After 10 turbulent years, those who were Red Guards should feel much inner conflict, but a group of professors who had been overseas, former Red Guards, quoted an American folksaying: "We hate him and his conduct, but we respect his motives. He was unreservedly for the people and for that, we love him. We love him only for that, but it is enough."

**Food for Thought No. 2:** In the past, he was compared with Stalin, but after the calming down of the situation, and a chance to reason and think, we have raised our esteem. Because, aside from an "iron hand," he had other longlasting achievements: "Not only are we destroying an old world, we are building a good new one." We pay attention to him because he has built new things that still function today.

**Food for Thought No. 3:** Irrespective of whether we hate or love him, it means that he still has an impact upon us. Oral constraints and political denial do not work. We must succeed him and surpass him through effort. It is sad to work in anyone's shadow. When we can really, definitely, and naturally forget him is when we will have really improved as a people. But this requires actual achievement in work and conduct, not just empty words.

**Food for Thought No. 4:** For a time, the song, *Let the World Be Full of Love* was sung throughout China, and our sentiments became used to literary styles that were gorgeously placid. Whoever brought up "class struggle" was considered abnormal, or allergic. But the sudden turmoil changed "hand to hand" to "sun to gun." People ultimately discovered that it might be necessary to "pass the ammunition while praising the Lord."

Mao Zedong has not died.

#### Correctly Guiding the "Search for Mao Zedong" Phenomenon

Cheng Renhua [4453 0088 5478], Marxism-Leninism Study Institute, Beijing Normal University

Since recent days, a "search for Mao Zedong" phenomenon has surfaced among students at the various universities in the capital. Many people are discussing his biography. Checkouts of library books by Mao or about him have increased. More of his schoolmates talk about him. This has aroused interest by the leaders of the various schools and various elements in society, in particular the news media. Students at Beijing Normal University have not been exceptions. Recently, I surveyed students of different ages, class years, and majors, including graduate students. They reflect different perspectives concerning the "search" and different responses. Those at lower grades paid more attention to his biographies, such as *Mao Zedong: Leaving the Divine Temple, The Second Half of the Life of Mao Zedong*, and

so on. Higher level students, some graduate students (mostly those interested in him as statesman), favored his selected words.

Why this phenomenon? The following reasons are seen in summary.

#### The Colorful Legend of Mao Zedong

The fact that Mao Zedong had been a dynamic man all his life and had done many great things undoubtedly drew students to his life as a magnet to learn from his achievements. Some are very interested in his work, life, and particularly his feelings. His romanticism, his boldness of vision, and his colorful life all drew them to him. In connection with this, although there has been the resolution of a number of historical problems since the establishment of the nation, students were not satisfied, wanting to use their own minds and their own eyes to evaluate Mao Zedong. In today's atmosphere of weakened authority and loss of credibility, they get nostalgic. Part of it is passive, they are fed up with official profiteering, corruption of the cadres, and so on. Part of it is to treasure the past, to find the historical traces by reading Mao. Still another facet is the aggravation of contradictions and extremism. If reason is lost, this may become irreparable.

#### Influence by the Current Political Climate

The appearance of the "search" phenomenon is not unrelated to the recent turmoil. This has been an intense reaction. The good part is that the party Central Committee is now promoting the rejuvenation of a desirable party tradition and moral stance, of bitter and hard struggle, of going to the masses, and so forth. All these the students feel personally and support. Although they did not experience the spirit of solidarity of the 1950's, when party cadres were poor but honest, when there was brotherly love, they could understand that from the stories of their fathers and from books. Their wanting to learn from Mao Zedong's works, their chasing after the glorious achievements of Mao and his contemporaries are, I believe, due to their understanding of the current situation and their expectations of it because they feel there are similarities. But, on the other hand, one must not ignore the reasons why the good expectations of the students were reversed after the turmoil, some students still not having thought things through. Some inappropriately equate the concrete efforts by party cadres to institute basic-level training with what Mao did in his later years—"go up the mountain, back down to the country." They worry about the fate of the intellectuals, so some do not actively read Mao's writings. For example, some only have intense interest in his later words. This merits our attention.

#### The Positive Functions of Mao Zedong Thoughts

Mao Zedong Thought is the crystallization of the Chinese Communist Party's collective wisdom. After the June turbulence, university students deeply felt that "Westernization" was not realistic. What would be must

be planted in Chinese soil. And Mao Zedong's understanding of China was the most profound. His thought is objective truth representing the Chinese Communist Party's use of Marxism-Leninism to analyze China realistically. Without the correct thought, revolution would have stagnated for 10 years or even longer. So we cannot ignore the fact that it is the life force of his thought that draws the students to learn from him. But there is something else: Some students search for Mao, read Mao not to get his essence, but only look to the thoughts of his waning years for guidance (some of which are entirely incorrect). This is dangerous.

#### Directing the Search Toward All of China

Feng Huanlei [6646 3562 4320], Central School of Music

Wu Xingke [0702 5281 4430], Qinghua University

At the moment, in the higher institutions of the capital, a "Search for Mao Zedong" fever is gently rising among university students. From our understanding after interviewing these students, its temperature is higher in the arts and humanities than among science and engineering majors. The situation can be categorized largely as the following three: First, an interest in the life of Mao Zedong, as expressed through widespread reading of such books as *A Biography of Mao Zedong*, *The Second Half of Mao Zedong's Life*, *Mao Zedong Approaches the Divine Temple*, *Mao Zedong: Leaving the Divine Temple*, *The Age of Mao Zedong*, and so forth. The second is a systematic study of his works. Many schools have shown an increasing readership of such works as *Selected Works of Mao Zedong*, *Selected Readings of Mao Zedong*, to the extent that some schools reported that their entire collection had been checked out. Students also loved Mao's poetry; we saw a female student in one book store buy several hardcover copies of *Mao Zedong's Verses*; she said she was buying them for others. The third kind is the appearance of "Mao Zedong study groups" where the students comprehensively and systematically study and try to understand Mao's life and thought.

Why such fever? According to our understanding of the situation, it is connected with the students' reflection on the turbulent waves of the summer of 1989. Some say that the "search" had already started before that time. We are of the opinion that a small minority had already long ago been interested in reading his biography and writings, but the general heating up of the "search" began after the troubles.

The disturbances of the summer of 1989 shocked university students. At the beginning, they joined the student tide with the good intention of opposing corruption and wishing for reform. Developments went at odds with the good intentions and the tide changed into a riot and counterrevolutionary uprising, causing great loss to the country and to the people. It pronounced the defeat of those students with a higher sense of political responsibility in their political participation. Thinking of the repeated setbacks of student movements since 1986, they had to admit the reality that Western ideas of

"freedom and democracy" in political reform did not fit in China. This caused them to ask themselves what is the correct social participation by university students? How do students gel with society? Does the fault lie within ourselves?

And thus, the students started to reassess; they must reassess themselves and society, reality, and history.

To face the future, students must face the present, and understand it thoroughly. To do so then, they must understand history, learning where reality came from and why. Today's history is yesterday's reality, and today's reality is tomorrow's history. What the past revolutions in recent Chinese history have exerted as a definitive influence upon China's history and reality has been the new democratic revolution under the leadership of the Communist Party and the reform and establishment of socialism. And Mao Zedong is the outstanding representative of the Chinese Communist Party member. One can say that Mao's experiences have been a capsulized version of the history of China's new democratic revolution. Although university students have learned the history of the party and of China's revolutions, they really have not been that familiar with the party members, especially the specific role of Mao in this great historical change. Their search for Mao is a desire to understand China's yesterday and today through him.

University students want to understand society because they want to join society and to rebuild it. Here is a problem in merging the individual intellectual with society. Yet Mao Zedong is the most successful model of such a merging between the intellectual and society. Irrespective of bourgeois intellectuals such as Uen Fu [0917 1788] or Sun Zhonghsan, or the party's own "28 demi-Bolsheviks," none really resolved this problem. Their effect on Chinese history cannot be compared to Mao's. Only Mao best understood China's situation, and he used his own rationalization and actions to motivate the Chinese people to move forward in history. The students search for him to find themselves.

Of course, there are other motives as well in the "Search for Mao Zedong" fever aside from these main ones. Students are interested in the lives of great people. Some worship his charismatic personality. Some had even been influenced by Western political scientists so as to worship Mao as a strong man. But there are not many of those.

We hold that the search is still just that, and not that they had formed some conclusions. So it is not advisable to use such simple evaluations as "good," "not good," "active" or "passive." But this is decidedly different from the past "Sartre fever" or "Freud fever." This time the eye is on the land of China. What is sought is close scrutiny of China's history and reality, and one's proper place in society. The object of the search is a leader of the

party and of the people, a great national hero who exerted tremendous influence on China's history, reality, and future.

This search makes new demands upon our work in thought and theory, but it also gives us an opportunity. We can restore the original image of Mao Zedong as a great proletarian revolutionary. Starting with the Cultural Revolution, and for a lengthy period, Mao was deified by some and was so worshipped. Later, when the Cultural Revolution was completely discredited, the aura of a deity was demolished, but then he became a man who "made many errors." It must be said that Mao the god did not have much impact on today's campuses, but the latter image did have its effects. Now, we must take the initiative to help the students understand Mao's greatness of character and his great accomplishments in the journey of China's revolution. We must also help the students comprehensively recognize and understand his thought, help them master the essence of his thought and theory and their scientific content, clearly differentiating between the scientific nature of his thought and the errors of his later years.

We believe fervently that we need only be correct and proper in our leadership. No matter what the initial motivation had been for the "search," the majority of the students will be educated and enlightened from it, and find the correct road by themselves. We believe that, through this "search," the students will find their own niche in the historic drama of "revitalizing China," and the role they should play, and choose their own conduct.

#### **My Look at the "Search for Mao Zedong" Phenomenon**

Jiang Xiaoyu [5592 2400 1946]

Beijing Youth College of Political Science

Recently, on many campuses, there has been a rush to read everything by and about Mao Zedong, biographies, memoirs, essays, and so on. For a time, *Inside and Outside the Crimson Wall, An Eternity in Hand, Mao Zedong Approaches the Divine Temple, Mao Zedong: Leaving the Divine Temple, Selected Works of Mao Zedong*,... have become the coveted loot of the student. Everybody is discussing Mao's character, evaluating his place in history, studying his thought, pondering his tortuous life... this is a general phenomenon on and off campus, what commentators refer to as the university student "search for Mao Zedong phenomenon." Why this? What does this say? How should it be dealt with? What does it reveal to us? I would like to talk about my personal perception of it.

#### **A. How Did the "Search" Come About?**

People have both blamed and praised the "search." Some comrades worry that it is a return of the old, that it is a bitter and tortuous reassessment, and so on. But I have an optimistic attitude. I think we can analyze it in three ways:

First, this is a thirst for social stability after a period of turmoil. Starting in the second half of last year, people in a number of areas were seen wearing pins with Mao Zedong's picture. This is a sign of nostalgic longing for the past after facing the many social contradictions with little prospect of solution by some people who were confused. After the "waves of June," however, the search for Mao by university students was not just that, but had deeper meaning in an even more complex society. Can we not say that, after such a major disturbance in society, any society, the people thirst for stability and society in general for calm, equilibrium, healthy development. Looking at it this way, we see that it is an active, not simply a passive phenomenon.

Second, after such a complex and acute political storm, students have matured in their reassessment of society and of the nation. From April to June of this year, this violent storm will seem like a dream to many students. Those who were swept away in the storm, it must be said, had joined the movement in good faith and intention. After such a high pitch of naive patriotism which changed into a violent uprising, students have cooled their ardor. They now look at the national situation more objectively, coolly, and have started to reacquaint themselves with the uniqueness of Chinese society, and look earnestly for China's road ahead. I believe that once they actually start, once they really seek to carry out the four modernizations, these patriots who want to rejuvenate China will march on the same road historically with the Chinese Communist Party and with socialism. Echoing the search for Mao Zedong will be active application for party membership, to enroll in party classes. This is inevitable. This obliquely reflects that the quality of the mainstream student body is good, active, and wants to move forward.

Third, this is a rational process born of bitter suffering. How was patriotism transformed into rioting? Why did the enthusiastically patriotic become "elitist accessories"? Why was the logic of Chinese politics so hard to grasp? Why... Was it society that had the problems, or we? Or both? These questions one after another are what the students are trying to probe. Not only are the students reassessing society, they are reassessing me. They are reconfirming their place, their responsibility and their future. They want to siphon strength from the great, they want to find their shadow in history. So, they turn to Mao Zedong. They hope to find the answer there.

#### **B. What Have They Found?**

Students searched with different motives, and the goals were not uniform. They started out from their own understandings and needs. Some looked for the secrets of success, others for a great man's character, still others for the road of reform, and some to find a formula for governing internally and externally. Of course, some might be looking to Mao's past for weapons against the party of today. No matter what and how, I believe that the majority are beginning to know and to acknowledge Mao Zedong on three levels.

1. They acknowledge his character. Students love self-satisfaction and an independent personality. They love to talk about themselves, their personalities, where they made errors, their superiority. They read Mao's memoirs, biographies, family history and discover his fresh character, romanticism, humorous conversation, agile mind, profound theories, and broad talents, openheartedness, dazzling charisma... Isn't this the fulfilled character they seek? They discover that he was not what they imagined a party leader to be, one who puts on airs of a leader and self-important "divineness." He was not the kind who always made mistakes, and was not an untautened and unethical nobody. They recognize him for simplicity and humility. I believe this will greatly narrow the gap between student and party. The most common way for the masses to know the party is from the image presented by the members around them. The students would lean even more on the conduct of the leadership. The narrowing of the gap will lead the students on to even more desirable quests and assessments.

2. History acknowledges Mao Zedong. Mao's name has become closely linked to the 20th century and to China's history. In a definite sense, Mao's history is a microcosm of the history of the Chinese Communist Party from its birth to 1968, as well as one of the microcosms of China's recent revolutionary history. The Chinese revolution and China's birth are inseparable from the party. Mao is one of the most outstanding leaders of the party. Although he made mistakes, even some very serious ones in his later years, his great historical accomplishments will never be destroyed. To search for Mao is to read the history of the Chinese revolution. It is the historical key to understanding why the revolution and the party are as one. I believe that if we really read and think, not only will we acknowledge Mao's superior character, but his place in history, which is also recognition of the truism that "there is no New China without the party." Of course, we can also say that we are beginning to realize that "only socialism can save China." I believe that as more students search for Mao so will we more scientifically assess his place in history.

3. Mao Zedong is recognized on a broad basis. To understand Mao, we must understand the Chinese national situation. To understand China, we must understand Mao. Many students came to realize after the turmoil last year that they did not really understand the national situation. Only after having read Mao's words did they realize that they did not understand China as well as Mao did. Some students say Mao was one of the ones who best understood China; his theory and thought saved China. Today, his thought and his methods still have strong real significance. Some students believe that the socialist direction Mao represented, his national dignity and pride of nation, his spirit of promoting rebirth through bitter struggle have all strengthened the students' self-confidence and given it nourishment. We say that Mao's thought is the merging of the universal truth of Marxism with the real accomplishments of the Chinese revolution. Mao's thought is not only the fruit of

his personal wisdom, but is the crystallization of the party's. Mao's thought not only is the successful manifestation of Marxism in China, but is the proof of his Communist Party's enrichment and expansion of Marxism. Some considerations of Mao may be passe, some (for example, continuation of the revolution under proletarian dictatorship, expanding the Cultural Revolution, and so forth) may be proven wrong by the test of time. But the principles that embody his thought and that he sought to achieve, the merging of the Chinese revolution with the universality of Marxism, and so on, only are not passe, but require that we learn them well, take and hold them, and use them. Thus, I believe that, in their search, the students will reach a new plateau, really know, be convinced, and really believe that Marxism and Mao Zedong Thought will reach new horizons. This is also what the party and the people hope for, and hope that even more students will embrace the world view of Marxism.

#### The Impact of Mao Zedong the Giant

Du Hanfeng [2629 1383 7685]

Beijing Air and Space University

In May 1949, during a major conference, Zhou Enlai first brought out the cry, "learn from Mao Zedong." At the time, Mao was a rallying flag for the young. Zhou said, "Mao Zedong is a giant, born of the soil of China." The "search for Mao Zedong phenomenon" seems similar to the "learn from Mao Zedong" of some 40 years ago, but it was not just a simple reenactment. After his death, national sentiment for him was never completely disrupted. Particularly in recent years, it was manifested through mass culture forms such as songs of praise, wearing pins with his picture, and so on. As in the "transfer of affection" in aesthetics, students have now transferred their affection to the search. This phenomenon is merely a reflection of the national nostalgic feelings for Mao, and having become fastened to the students who had just experienced some drastic turmoil, particularly now it has aroused general interest.

This phenomenon more or less reflects what the university students feel at present. As idealism and reality clash, students' eyes turn more and more toward the real society of China, and head more and more toward Chinese history, especially that concerning the birth of the Chinese Communist Party, and Mao Zedong is the great representative of the party. University students respect objective history. The emotional fervor of the intellectual unique to university students leads them to join together in producing objective things, and quickly creates a response as a reverse gift. In light of China's history, the search for Mao Zedong is understandable. We should say that, regarding the land of our fathers, our people's leaders, justice, and so forth, although the students' views are not uniform, they can generally make value judgments. The "search" by university students is a special product of historical conditions. Borrowing the philosophical rule of denying the denial, on the surface it

might look like a return to the past, but if so, it is a return to the past at a higher level. Using a not too accurate comparison, at the time of the Renaissance, people touted the banners of ancient Greece and Rome, but they were actually working for the realization of humanism rather than simply an actual return to the past. The urgency of the students to want to know is to find the point of impact with present reality through yesterday's history somewhere in Mao. For example, Mao's great love for the people, not being able to bear the wails of sorrow of the poor, his anticorruption writings in establishing political power... they find all this refreshingly new. This generation of young students with a great sense of responsibility has the ability to analyze problems independently, and likewise their judgment of historical figures and events. We should also take into account the fact that they are getting from this the nourishment that they will be using in the long years of their life.

Nixon said, "When the curtain closes on the final act, the audience will stream out of the theater, go home, and resume their everyday lives. Yet, when the curtain falls on the political life of a leader, the everyday lives of the audience are changed. There may be profound changes in the historical process." In the footsteps of Mao Zedong, we can hear the thunder of history. The search for Mao Zedong as a cultural phenomenon will leave its tracks in history.

Mao Zedong was a leader who made an impact upon China's history and upon the world; he was a great revolutionary, theorist, and strategist as well as a notable poet. There are few great men in Chinese history with his type of boldness and talent. He has left an indelible mark upon history. This is not to deify Mao, but merely to state a commonly acknowledged fact. I think that one of the most important reasons for the search movement is not that he had been ignored for a time. To search, not only are we curious about Mao the legend and not only is it because we have an unlimited capacity to remember him, but is because he has made a giant's impact upon modern Chinese history. What I emphasize as the impact of a giant is a double one of Mao as a man and Mao as a theory. Mao the man points to his moral character, sentiments, integrity. Theory refers to his point of view, thought, and his thought as a system. These two complement each other and, although we can divide them into two, they form an integral organism. The influence of the giant upon contemporary China is deep and broad. The search by the students is one manifestation of this. Although it may seem temporary as looked at now, it will probably appear time and time again in the development of history.

If the search merely stays at the national nostalgic phase on a level with the sentiments of society, then it is a temporary remedial factor and had risen to more profound stages. What is valuable is that the students now have become interested in Mao's theoretical dissertations. Because of this, it becomes ever more important to analyze his theories for contemporary significance. His theoretical dissertations are a major example of the

amalgamation of the universal Marxist truths with the concrete achievements of revolutionary China. To sum it up, it is a coalescence of the basic national situation. Because the students' understanding of China's social reality is not too great, they lack a sense of historical comparability and sense of reality, and they make many errors in judgment. Students who have regarded themselves as the "masters of salvation" cannot solve the actual problems of China. And Mao, with his comrades-in-arms, won the mainland, chased away the corrupt Kuomintang, built up a new political power structure. Its success in came large part from the basic nature of the country. People called him the "great liberator" because he saved them from hellfire. Aside from dismissing the long-held and still latent notion of an agricultural society to worship an emperor or a hero, it is not an exaggeration to consider his accomplishments in such light. If the students wish to be "saviors," then they must start at the basic nature of the country, better understand Chinese society, and only then can they contribute to the well-being of nation and people. But times have changed. The students' idealistic notion of "governing the world" must take root in Chinese soil. Thus, when they breathe the air of the republic, they will really feel that this is the air of their beloved country. It would be unrealistic to use Western values to observe the actual society of China and apply to its basic nature a utopian plan that does not fit.

Mao Zedong was a man, not a deity. Man has faults. Starting with this inference, we can then understand and accept Mao Zedong's own contradictions. Mao had described himself as half tiger and half monkey. In terms of personality, the Mao in war and the Mao in peace have been largely consistent with each other. In terms of theory, however, there were distinct differences. One cannot attach current significance to his theories if one does not take this into account. In war, Mao plunged into the masses, and survival of the people was his foremost concern. National contradictions were the most important ones. People could not talk about "establishing," but were concerned with "destroying," "destroying" the old world, overturning the three mountains (*feudalism, imperialism, bureaucrat-capitalism*), and so Mao's theory of destruction flourished. But the Mao of peace, because he could not freely chose personally, became rather aloof and remote from the world, his theory of establishment tended to be somewhat out of touch with reality. One thing is agreed upon by all, that Mao loved a challenge and it made him enthusiastic. However, his peacetime notion that "man lives for struggle" was not attainable. To sum up, Mao's personality and his theory were consistent in expressing his combativeness.

At the moment, the university students' search for Mao Zedong is still within the framework of "personal history." Edgar Snow once wrote that Mao unconsciously wrote his personal history into the process of a great movement. What concerned him was the collective historical change of mankind. So we should not just use his personal history as reference, but should put it into a

bigger cultural perspective and regard it as a cultural phenomenon. Its coverage is broad and wide. Whether it be Mao Zedong of Hunan's Xiangtan, or Zhou Enlai of Jiangsu's Huaian or Deng Xiaoping of Guang'an in Sichuan, their choice and acceptance of Marxism are all rooted in Chinese soil, their successes represent a historical direction. Mao's history is really a portrayal of the history of the Chinese Communist Party man and a record of the amalgamation of East and West. It is a still fascinating topic to evaluate Mao in today's terms, or his historical place or that of the other central figures of the Communist Party.

The forging of China's modernization is related to the reaping of the benefits of Mao's teachings. To ignore the study of the history of China's modernization, to ignore the study of Mao will force us to repeat history and its tragedies, and to repeat Mao's mistakes.

#### Search for Mao Zedong—The Key to Truth

Yao Wang [1202 2598]

Deputy secretary, Beijing Committee of the Communist Youth League

More than a month ago, a young editor visited me at home and mentioned an emerging phenomenon at the universities. He called it the "search for Mao Zedong fever." Is this an accurate description? I was not sure at the time. When the first session of the Beijing University Students Arts Festival opened, the China School of Dance performed on a grand scale a number called *Huang He*. When *The East Is Red* was played, there was thunderous applause... This convinced me that there has indeed been a phenomenon called "search for Mao Zedong" in existence.

How can anyone ever forget such a great personage as Mao Zedong? It would be historically inevitable that a generation would look for and learn from one who, viewed objectively, was great.

Worth noting is the organic joining of the search with psychological characteristics of university students—today's university student has a formless "consciousness of great men." For many years, students had been inspired through their reading to have a number of "fevers." Notably, one "fever" had been at a constant temperature and that was the biographies of famous people. They wanted to use great men as role models. Especially after the turmoil, when it was proven that Western theory did not apply, they naturally turned toward things on the mainland itself that would benefit them, and learned from those so as to dissipate their doubts.

How do we recognize this phenomenon?

We should divide it into two parts. While the active factors constitute the mainstream, we cannot ignore the passive ones.

First among the active ones is the earnest study of Mao's philosophical thought, his theories—loudly discussed by the students. They have doubts and lack of understanding concerning many social phenomena, and when Western theories did not pass muster, they turned to Mao's thoughts and the Marxist bibles. Students have limited financial circumstances, but *Das Kapital* was sold out at the recently concluded Social Sciences Book Market, a most pleasant occurrence. Second was learning from Mao's perception of the national state; this encompassed the serious contemplation of China's future by the students. Mao was a great man and he was a national hero; he deeply understood the national state, history, and culture of China. His great talent in prose and verse was admired by the students. Third was learning from his moral integrity. Fourth was learning from his great character. Such learning was molded together with the students' reflection of their own weaknesses, mortification, and negative thinking.

Passively, the search also reflected a kind of nostalgia for the past, rebelliousness, and the art of wielding power. Some students had new fears, including those who did not understand the new contradictions arising out of reform and social progress, for example, the smashing of the common rice pot. In theory, students supported reform, but when their lives were involved, such as in reform of the work assignment process after graduation, which affected their personal welfare, they began to long for the past. We should be alerted to this. Mao Zedong was a revolutionary, a great man who overthrew the old world, established a new one. In his early thought, the flavor of rebellion was strong, but this no longer fits into our scheme of economic buildup and development. An example is "class struggle as the key link." Of course, in old China, it was correct to build feudalism, imperialism and bureaucrat-capitalism. Now, the people are the masters, socialism is firmly rooted, and it would be erroneous to search for such ideas as a theoretical foundation. They do not see that society has developed and changed, so we have reason to attack the so-called "rebelliousness" and "revolutionary" consciousness, and the incorrect Western viewpoint of shifting political struggle to consider China's political struggle.

In summation, the "search" has both active and passive aspects that require our attention. On one hand, it signifies the gradual maturation of student thought, on the other hand it exposes weaknesses in our work. The students have studied many problems that should have been included in our theoretical educational curriculum. Elementary, middle schools, and schools of higher education, even graduate schools, all have courses in politics. Then why were these questions unanswered? On the other hand, it also reflects the deficiency in our theoretical work. When we cannot answer satisfactorily, the students naturally turn to the West or the past; we did not match up theory with reality and give forceful answers to the students.

Then what should be done?

I recommend that we take aim at the fever point of our youths and guide the discussions from there. We must strengthen the introduction to Chinese history and Mao and Mao Zedong Thought. Then we must occupy the height of thought and boost theoretical studies in Mao Zedong Thought. Many look for Mao Zedong's charismatic quality, but I feel what must be sought is basically his theory, so as to truly merge his great thought with the real problems of China, strengthen the study of China's problems and those of the world. Search for Mao is the key to recognizing problems of the present. In the early days of the eight-year War of Resistance Against Japan, Mao had already indicated the phases that the war would undergo. How about us? Last, we must attach importance in the minds of our youths to achievements. Mao had always stressed the importance of achievements. As long as we have firmly defined our direction, active factors will come into play and we shall get closer and closer to finding the key to truth, so that our country and our society will heat up.

#### **Lei Feng Spirit Underscores Traditional Values**

90CM0033C Beijing JINGJI RIBAO in Chinese  
5 Mar 90 p 3

[Article by Shi Yongji (0670 3057 0679): "Magnify National Spirit—Study Lei Feng's Good Example"]

[Text] *Learn from Lei Feng's good model,  
Loyal to the revolution, loyal to the party,  
Does not forget fundamentals in distinguishing  
love and hate,  
Standpoint firm, will to fight strong.*

This is a song about Lei Feng. I remember in the sixties that people loved this song. Not only could adults sing it, but even kids in kindergarten could sing it. Because China's political and economic life has been through trials and hardships in the past 20 years, learn-from-Lei Feng activity has also suffered disruption and damage. In the time when the gang of four were running rampant and during the 10 years of chaos, Lei Feng spirit was seriously distorted. When the bourgeois liberalism trend of thought spread unchecked, some people also defamed Lei Feng spirit. For a time, "Uncle Lei Feng disappeared" and this song about Lei Feng was heard rarely. But the great name of Lei Feng has not disappeared from people's hearts. When elderly, feeble, sick, or injured people get on the bus and cannot find a seat, they think of Lei Feng. When older workers in a factory see some young workers not working hard they think of Lei Feng. When people have trouble and don't have anyone to help them, they still think of Lei Feng. Facts show that our people, our nation, and our society need Lei Feng and need Lei Feng spirit.

Any society or any period needs its spiritual support. The positive role of national spirit is one important reason the Chinese people have prospered so long and stand on their own among the nations of the world. Lei Feng spirit is the spirit of the socialist era and the embodiment of the Chinese nation's traditional virtues. Studying Lei

Feng spirit both continues the excellent traditional virtues of the Chinese nation and enhances the spirit of the socialist era.

What should mainly be studied in learning from Lei Feng now?

First, like Lei Feng, whatever the situation, a conscious, staunch proletarian political standpoint should be maintained in ideological, political, and behavioral unity with the party Central Committee.

Second, like Lei Feng, establish great communist ideals, staunch communist faith, and consciously struggle life-long for communism.

Third, like Lei Feng, establish the mindset of wholeheartedly serving the people. Individual interests are subordinated unconditionally to the interests of the party and the people. At critical times for the party and people, come out boldly and do not hesitate even to sacrifice one's own life.

Fourth, like Lei Feng, carry forward the spirit of arduous struggle. Self-consciously resist inroads of corrupt thinking, oppose going in for ostentation and extravagance, parading one's wealth, waste, and extravagance, and resolve to get through several lean years.

Lei Feng spirit is a powerful spiritual force. We deeply believe that through carrying out learn-from-Lei Feng activity broadly and in depth, under inspiration and encouragement of Lei Feng spirit there will be a bountiful harvest.

#### **Commentator Urges Rural Emulation of Lei Feng Spirit**

90CM0033A Beijing NONGMIN RIBAO in Chinese  
5 Mar 90 p 1

[Commentator's article: "Learn From Lei Feng in Depth; Build a New Rural Area"]

[Text] In today's China from the cities to the rural areas, in all trades and professions and among the masses and youth ardent learning from Lei Feng is again underway and advanced Lei Feng-type individuals are constantly emerging. Not long ago this newspaper reported about the "lianglan [0357 5695]," then told us about the "lianglan" from Shandong, who were even better examples. The masses in the rural areas said with delight, "Lei Feng is back!"

Lei Feng is an outstanding representative of the new man which we and the socialist system have fostered and is a good example for teaching and encouraging the broad masses and young people and for rousing the spirit of the masses. Lei Feng spirit is a happy combination of the traditional virtues of the Chinese peoples and the spirit of unselfish contribution of the Communist Party person and has staunch vitality. Although attacked constantly by various tides of mistaken thought, for the past 20-odd

years learning from Lei Feng has had its vicissitudes, but the Lei Feng spirit is still alive in the hearts of the people. Even when we should not have neglected Lei Feng spirit there were still many among the rural masses and young people who quietly upheld learning from Lei Feng and fully exhibited the force of Lei Feng as a good example.

Today, in the new situation of in-depth rural reform and developing a socialist commodity economy, is Lei Feng spirit out of date? Is it still necessary to continue learning from Lei Feng? This is absolutely correct.

We might say that now, not only is Lei Feng spirit not out of date, but under the new situation it can rise to a still higher level. The times cry out for Lei Feng, the rural areas need Lei Feng. Learn-from-Lei Feng activity reflects the broad masses' common aspiration to build a socialist spiritual civilization and change the bad social atmosphere. This is in accord with the will of the people. It is undoubtedly correct to develop a socialist commodity economy, but if we do not pay attention, it also may create some negative influences on people's ideological ideas, especially the relationship between individuals. We cannot dilute the spirit of unselfish contribution just because developing of a commodity economy strengthened the idea of material benefits. Nor can we dilute socialist cooperation because we strengthened the idea of competition. Even less can we dilute the spirit of collectivism because we strengthened the idea of autonomy. We should uphold stressing this to prevent and overcome these defects. While stepping up the building of a material civilization, we should vigorously step up building a spiritual civilization, make the socialist legal system strong, and carry out ideological and political work. Yet, constantly carrying out learn-from-Lei Feng activities broadly and deeply enhances Lei Feng spirit. This inspires and guides people to know the major principles, consider the general situation, and deal correctly with the interests of the state, the collective and the individual. This is the key necessary for strengthening the building of a spiritual civilization.

Carrying out learn-from-Lei Feng activities is not only doing good deeds, popularizing the party's policies, safeguarding social order, participating in voluntary labor, helping the poor and hard pressed, supporting the weak and rescuing those in danger, and caring for the dependents of martyrs and the households enjoying the five guarantees. More important, through various forms we should study Lei Feng spirit, train a generation of new people who "have ideals, morality, education, and discipline," and build socialism better. This is the fundamental goal of learning from Lei Feng. We should study how Lei Feng ardently loved socialism, upheld faith in communism, and firmly believed that "only socialism can save and develop China"; firmly believed in the leadership of the Communist Party, self-consciously maintained political unity with the party Central Committee, and did not engage in "above, there are policies; below, there are responses." We must observe discipline and the law, be diligent and devote efforts to becoming rich, stabilizing and improving the

family joint production contract responsibility system, take the socialist road of common prosperity, realize the sustained and steady development of agriculture. Currently, in our practice of improvement and rectification, and in-depth rural reform, we should self-consciously resist and overcome extreme egoistical mentality such as "everything depends on money," being intent on nothing but profit, and profiting from other people's toil. We should struggle with all bad behavior such as breaking the law and violating discipline and encroaching on the interests of the state and the collective. We should advocate the virtues of working selflessly for the public interest, putting others before oneself, supporting the poor and helping the weak, respecting the elderly and loving children, and treating others cordially. In this way Lei Feng spirit will be constantly enhanced, will warm thousands of homes, and a new habit of equality, mutual assistance, unity and friendship, "I am for others and others are for me," and working as one to build socialism will form in society.

We should look at actions and talk about results, uphold standardization, constantly summarize experience and not engage in formalism in learning from Lei Feng. This is not just a matter for the masses and youth. All rural party members and cadres should take the lead in upholding learning from Lei Feng. Learn-from-Lei Feng activity can develop in depth and in time and produce better results only if the party members and cadres set an example in their own behavior.

#### Lei Feng Seen Emulated at Home, Abroad

90CM0033B Beijing JINGJI RIBAO in Chinese  
4 Mar 90 p 1

[Article by Shang De (1424-1795): "On 'Lei Feng Has Gone Abroad'"]

[Text] Tomorrow is the 27th anniversary of Chairman Mao's call to "learn from Lei Feng." Every year on 5 March we have talked about Lei Feng, but this year the situation is different, for people are cheering, "Lei Feng is back!" So where has Lei Feng been? It is said he went "abroad." About a year ago, a newspaper reported that there was an upsurge of enthusiasm for Lei Feng at the famous U.S. Military Academy at West Point and that the cadets were reading Lei Feng's diary and stories about Lei Feng and that pictures and sayings of Lei Feng were posted around campus. At the very time when Lei Feng was not popular at home, he had received an invitation to go to the United States to "lecture."

When the news reached us, people in China wondered: What's going on? Why has our good example been taken away by the Americans? So the cry, "Lei Feng has gone abroad" was a hot topic of conversation for a while. In March of last year, the newspapers reported that an elderly person from Shanghai happened to visit the United States. He went the Military Academy at West Point and asked how could our Comrade Lei Feng have come here? How are you "learning from Lei Feng?"

From the response, it appeared that it was not as enthusiastic as our newspapers reported. At the time, the person at West Point wasn't sure how to answer, and asked in return, "We're not very clear on just what Lei Feng did. Is he a model everyone elected?"—drawing together our "establishing an advanced model" and their "election"—the old man could only explain to them simply about Lei Feng, the man and his deeds. Then as if enlightened, they said, "Perhaps it's advocating a Lei Feng-style spirit of contribution!" Later, he discovered that there was a photograph and explanation about Lei Feng in the school's exhibition hall and that people really were learning from Lei Feng, but it wasn't exactly with "great fervor."

Actually, what's wrong with foreigners learning from Lei Feng? If our Comrade Lei Feng can earn the respect and love of foreign friends, isn't this an honor to us Chinese? Why should people be surprised when they hear that "Lei Feng has gone abroad?" Clearly, people do not intend to oppose Lei Feng's "going abroad," but to lament the treatment of Lei Feng at home. For a time the following strange thing occurred in our society: People liked Lei Feng and needed Lei Feng, but Lei Feng spirit underwent censure and reproach. Some said, "This is the age of the commodity economy. Lei Feng spirit is out of date!" Others said, "To talk about encouraging Lei Feng's communist spirit is to affect a high moral tone." The attitude of "self-worth," "self-indulgence," "everything depends on money," and so on, encouraged by some people is in vogue. Lei Feng spirit has been ridiculed and satirized, and some learn-from-Lei Feng activists have found themselves in a confusing predicament.

I have two articles that I cut from the newspaper about this time last year, and reading them gives one pause. One, called "After Lei Feng Went Abroad," appeared in the 20 March 1989 ZHONGGUO FUNU BAO. It said that passenger aide Zhu Lianxiang [2612 6647 7449], called a "living Lei Feng," had done more than 10,000 good deeds since 1982. She had signed for emergency procedures for 25 critically ill passengers, revived 156 passengers on the very brink of death, participated in the funerals of eight deceased (passengers), rescued 26 kidnapped children, and had given nearly 10,000 yuan in revolving capital to help passengers in difficulty. Her deeds have often appeared in the newspaper and people have called her a "3-8" Red Banner Pacesetter many times. When the "3-8" Red Banner Pacesetters from throughout the country gathered in Beijing last year, she was coldshouldered. Although she still waited on other Red Banner Pacesetters as before, people did not seem moved by her behavior. She told reporters, "People don't understand the things I do and think that I'm doing stupid things, so they call me 'Sister Stupid', or say there are some stupid things about me..." She was puzzled, and asked, "People say that Lei Feng has gone abroad and that now is the era of the entrepreneur, so a 'living Lei Feng' like me doesn't have any meaning any more?..." The other article, called "The Puzzle of the

"Lei Feng Cart,"" appeared in GONGREN RIBAO on 18 April 1989. It told of the long-distance service group at the Xinpu Station in Lianyungang City in Jiangsu Province. Beginning in 1963, for 26 years they have been using a shoulder pole and a flatbed tricycle to carry luggage back and forth for passengers free of charge. In the past they had been praised by all sectors of society, and people respectfully called it the "Lei Feng cart." However, a painful situation has appeared in the past few years. They cannot park the "Lei Feng cart" free in the railroad station lot; some passenger businesses have ridiculed, spoken sarcastically, attacked, and cursed the people pulling the "Lei Feng cart"; and even some state employees did not believe that the "Lei Feng cart" still doesn't ask for money, and suspected that this was a trick to cheat people...

How could these situations occur? This has puzzled many people. Why aren't good people and good deeds praised, and unhealthy trends and evil practices stopped? Can learn-from-Lei Feng activity continue? These all seem to have become problems. Although some periodicals still tell of the good people and good deeds of learning from Lei Feng, frequently they do it with some embarrassment and not boldly and assuredly. Some articles have explored issues in learning from Lei Feng in the new period and opinions often vary, many strange ideas are presented, making that it is hard to understand. Some want to refashion the image of Lei Feng, the better to create a "negative psychology." "Why? As a result of the disturbance and outbreak of counterrevolution in late spring and early summer of last year, many people have finally clearly understood: The ideas are not the same and the path is not the same. Lei Feng's outlook on life of ardently loving the party and socialism, wholeheartedly serving the people is fundamentally opposed to the "democracy and freedom" of bourgeois values and the outlook on life that the individual is supreme and the money worship encouraged by members of the "elite." It will be very difficult for Lei Feng spirit to have a solid footing if we do not criticize bourgeois liberal thought and attack unhealthy trends and evil practices.

The "coming" and "going" of Lei Feng spirit seems to be a barometer of our country's "political climate." In the chaos of the Cultural Revolution people cried out in alarm, "Uncle Lei Feng has disappeared." When the bourgeois liberal thought tide was running wild, society sounded the alarm: "Lei Feng has gone abroad." Now the political climate has changed and society is once again calling for Lei Feng spirit, and one by one Zhang Zixiang [1728 1311 4382]-type living Lei Fengs are marching toward us from all areas of society with faces newly radiant.

Now we are seeing again news that "Lei Feng has gone abroad," but our feelings are different. For example, NCNA [NEW CHINA NEWS AGENCY] recently published a news item entitled, "Lei Feng Belongs to the World," saying that since the Lei Feng Memorial Hall was built in Wangcheng County, Hunan, more than 14,000 foreign friends from 38 countries and regions and

compatriots from Hong Kong and Macao have visited it. According to the article, some countries have established learn-from-Lei Feng societies and sent people to China to buy Lei Feng diaries and books that tell about Lei Feng's deeds. In some countries, the government has reprinted the pamphlet *Lei Feng* for their citizens and as educational material for education in social ethics.

In view this, what should we do? First, welcome visitors and gladly send Comrade Lei Feng "abroad." Second, we should propagandize and study Lei Feng spirit more broadly and more deeply.

"Lei Feng belongs to the world" but he belongs to China first. He will shine more brightly in the world to attract people only if we can enhance Lei Feng spirit in the socialist ancestral land.

#### Paris Embassy Said To Harass Overseas Students

90ON0375A Hong Kong PAI HSING [THE PEOPLE] in Chinese No 209, 1 Feb 90 pp 33-34

[Article by Nan Mu (2809 2606) in France: "An Example of the Harassment From the Chinese Embassy Received by Mainland Overseas Students"]

[Text] It is an open secret that following the 4 June massacre, the Chinese Communists began to "settle accounts" with the overseas students. But, most people thought that not even toward the student leaders who initiated and organized the Paris democracy movement did the Chinese Embassy in France adopt such extreme measures as stopping the awarding of scholarships.

But, this writer recently found out that an ordinary overseas student from the mainland studying at government expense, who, although he sympathized with the democracy movement was by no means a member of the democracy movement, was cut off on New Year's Eve by the Chinese Communists the 2,300 Francs a month that he was depending on, placing his livelihood in a predicament. Prompted by a certain sympathy and curiosity, this writer paid a visit to the victim, Mr. D.\* I hope that I can use the bimonthly PAI HSING to permit our friends the numerous readers to understand the commendable moral integrity and courage of this overseas student while coming to a deeper understanding of the Chinese Communists. And, if such clumsy writing also is able to arouse the attention of concerned organizations and individuals to help him make it through the present difficulties, that naturally would be the writer's greater fortune.

[Nan]: Mr. D, before we get into the main topic, could you please briefly introduce yourself?

[D]: I am presently 32 years old, a native of Jiangsu. From 1978 to 1982, I was enrolled in Nanjing University. After graduation I worked in the Mathematical Research Department of the Chinese Academy of Science. In November 1987, I received permission to study at government expense in France for four years. I am

presently pursuing a doctorate at the Paris School Number 6. Unexpectedly, with my dissertation not yet half completed, the scholarship was stopped by the embassy.

#### Two Threatening Conversations

[Nan]: It would appear that the embassy made a "surprise attack" on you, wouldn't it?

[D]: Actually it can't be called a "surprise attack," because before the embassy formally stopped the scholarship they called me for two conversations. In today's way of speaking they gave me two brain washings. But, they did not succeed in washing [my] brain. On the contrary, they twice met rejection.

[Nan]: Can you talk about what took place in these two conversations?

[D]: Okay. The first conversation went this way: Last 1 October at the embassy I happened to run into Second Secretary Bai Zhangde [4101 4545 1795]. Bai mysteriously "invited" me into his office. Actually he was seeking a "heart-to-heart talk" with me. Bai is the embassy's infamous "old leftist." His viewpoint and mine obviously are totally different. So, the result could only be that we would part on bad terms. The second conversation was on 26 December, which also was the day after Romania's Ceausescu was executed. That day, I had originally gone to the embassy to get the first quarter of the 1990 scholarship money. But, Accountant Liu [0491] didn't give me the money. He said First Secretary Cao Guoxing [2580 0948 5281] had an important matter to talk to me about. Frankly, I didn't know Cao at all. I had only heard that he had just come to the embassy for an immediate posting around "4 June." He was a typical Li Peng man with neither learning nor skill, but he considered himself infallible. As expected, as soon as he opened his mouth he exhibited arrogance: "Who called you for a talk the last time? I heard your attitude was exceedingly obstinate!" Naturally, I was unwilling to yield and waged a tit-for-tat struggle with him. So, sparring back and forth, the two of us quickly got into a heated argument. Finally, Cao in addition to announcing that my scholarship would be stopped, threatened to use Chinese Communist Party discipline to punish me. The reason was that I participated in "antiparty, antisocialist counterrevolutionary activity." But, what he couldn't anticipate was that I would go so far as to personally write him an application to withdraw from the party. That caught him unaware and threw him to utter confusion for a time!

[Nan]: You just mentioned that the second time that the embassy called you for a talk was the day after the Romanian Communist leader was executed. You and Cao Guoxing certainly must have argued about the Romanian problem, didn't you?

[D]: Yes. I asked Cao if he knew that Romania was in the midst of an earth-shaking change. He, feigning complete indifference, said that he knew. I took advantage of the

opportunity to satirize him: "When we heard the news of Ceausescu's execution we were elated. We felt that the end was imminent for the Deng-Li-Yang clique. Your feelings certainly must have been as dejected as the fox mourning the death of the hare, weren't they?" Guess how he answered: "We do not interfere in the internal affairs of another country." He gave an irrelevant answer and missed the point. I almost died laughing.

#### Determined Not To Submit to the Chinese Communists

[Nan]: I would really like to hear you talk about your participation in the Paris democracy movement.

[D]: During the 1989 Beijing democracy movement, I participated in each of the protests and expressions of support organized by the Chinese in Paris, the same as the other students, especially late on the night of 3 June. After I learned about the news of the Beijing massacre that very night, I hurried to shout slogans in front of the embassy until I shouted myself hoarse... Later when the Paris democracy movement gradually ebbed, I still, the same as before, helped such democracy movement organizations as the democratic families and democratic fronts do as many things as I could. Moreover, as far as I know, when before long the French chapter of the democracy front holds the opening ceremony for the establishment of a congress, I will be the only student [to participate] whose education in France is paid by the Chinese government. But, I don't at all consider myself a member of the democracy movement. Actually, up to now, I still have not joined any democracy movement organization. Frankly speaking, I don't have the slightest interest in politics. My participation in the democracy movement is purely out of the conscience and uprightness that a Chinese intellectual should have.

[Nan]: But I know that there are those among the government-paid Chinese students in Paris, such as Jin Yizhong [6855 0001 0022] who for a period was a leader in the Paris democracy movement. Why did the embassy only stop your scholarship?

[D]: It could only be for two reasons: First, the other people generally belong to one or more democracy movement organizations. Jin Yizhong was even a red hot democracy movement leader. Comparatively speaking, they all have connections. The embassy would take their influence into account and wouldn't dare to act rashly

and blindly. I could be considered a nobody. So, Cao Guoxing was so unscrupulous toward me and meant what he said. Secondly, my attitude could have appeared more unequivocal and more resolute than the others. This can be proven from Cao Guoxing's words: "You can come again to talk with me, but if you still are as perverse as today, you needn't come." However, I would like to point out in passing that I have no intention of criticizing others. On the contrary, I quite understand their difficulties—with a wife caught in the hardships at home, I too have known these difficulties personally.

[Nan]: What do you estimate the embassy's next step toward you will be?

[D]: My scholarship has been stopped and I have withdrawn from the party. The next step undoubtedly will be to cause my parents trouble. Involving relatives is an old trick of the Chinese Communists.

[Nan]: What is your parents' reaction to all this?

[D]: My mother certainly must be very sad, very hurt. When I think of this point I feel that I did her a disservice. My father is a different story. He was an old cadre of the southern advance. His thinking is very leftist. Since "4 June," he has followed the Chinese Communists especially closely. We don't speak the same language at all. With the exception of flying into a rage, I don't expect that he would have any other reaction.

[Nan]: Please answer me one last question: Having lost your economic support, how do you intend to manage from here on?

[D]: In order to be able to complete my studies on time, I am prepared to apply to the French Government for a scholarship. If my hopes fall through, going to work as a laborer in a Chinese restaurant would be just fine! In any case, under no circumstances would I submit to the Chinese Communists, because submitting implies betraying my own conscience!

\*: In order to keep the Chinese Communists from even more viciously attacking and making reprisals, the victim's wife wanted the writer to conceal her husband's real name. So, the writer, as a writing convenience, used the substitute "Mr. D."

January 1990 in Paris.

## NATIONAL AFFAIRS, POLICY

### Economists Discuss Trends for 1990's; Part 3 of 4

900H0365A Hong Kong CHING CHI TAO PAO  
[ECONOMIC REPORTER] in Chinese No 4, 15 Jan 90  
pp 11-14

[Article by Cheng Li (2419 3810), staff reporter in Beijing: "China's Economic Trends in the Nineties—Record of Speeches at a Symposium of Chinese Economic Experts (Part Three)", parts one and two were published in JPRS-CAR-90-028]

[Text] "Under the Difficult Conditions in China and Abroad, How Is the Opening Up to the Outside World To Be Sustained?" by Li Chongwei [2621 1504 1218], Permanent Secretary of the Economic Technology and Social Development Research Center, State Council

In the 10 years of China's opening up to the outside world, enormous successes, which were the focus of world attention, were achieved, laying a foundation for all countries in the world to further develop economic technological exchange and cooperation. An especially important change was that, from the country's leaders to the common people, from top to bottom in China, everybody profoundly understood that, in the modern world, China definitely could never again "close the pass and have nothing to do with people outside," but had to unswervingly implement the policy of opening up to the outside world. This has become an historical course that China cannot reverse. Once the gate was opened, China itself could not again close it, and other people who want to block it also cannot do so.

China now faces problems in two respects: one is to implement the retrenchment policy in order to carry out improvement and rectification; the other is the economic sanctions imposed on China by a small number of Western countries. Will some difficulties and restrictions caused by this adversely affect China's opening up to the outside world? What attitude and countermeasures will China take? My individual views on this are:

First of all, I think that the improvement and rectification will not hamper the opening up to the outside world. On the contrary, they will be advantageous for performing foundation work in a down-to-earth manner, and for improving the quality and results of foreign economic relations and trade work; thus, be advantageous for further expanding the opening up to the outside world.

Over the past 10 years the rate of China's opening up to the outside world has been very fast. Because of a lack of experience, plus the fact that cadres at all levels subjectively had the idea of being overanxious for quick results, no matter whether it was macroeconomic control or microeconomic invigoration, they were both extreme. Frequently there was a pursuit of quantity, speed, and other superficial successes. For example, following the devolution of foreign trade business rights in 1988, more

than 2,000 new foreign trade companies were established. Of them, the greater part was not needed or was insufficiently qualified. To complete their tasks, some foreign trade enterprises forced up commodity prices, rushed to purchase at low prices from sources of goods and then competed abroad for markets, and even produced the problems of lowering the quality of export commodities and not abiding by contracts, thereby seriously damaging the country's reputation abroad. Although the quantity of exported commodities was greater, the foreign exchange received from them was relatively smaller, costs rose constantly, and economic results fell. Over these years, in imports, because controls were relaxed, a large amount of unnecessary consumer goods and luxury goods were imported, and many technologies, pieces of equipment, and production lines were duplicated in importation, not only wasting foreign exchange, but also hampering the development of the nation's industry and encouraging the psychology of blindly worshipping foreign things and the growth of the "lead" consumer atmosphere. In the aspect of absorbing foreign business investment, in the past several years, a lot of foreign capital has been invested in ways that do not conform to China's industrial policy. For example, in some cities there are too many first-class hotels and eating houses, which exceed normal requirements. There are also too many light, textile, and foodstuff industries that are aimed at the domestic market, and the proportion of advanced technologies and industries that can truly replace imports or generate foreign exchange by export is fairly small. In the past several years, because the size of cities and areas that open up to the outside world has grown too much and too soon, the country's financial resources and manpower could not be concentrated. First of all, several key cities were established with a fairly perfected investment environment, so that the investment environment of the majority of localities and their communication, telecommunication, and energy basic facilities were not sufficiently perfected, which adversely affected investment results and the attraction of foreign capital. Previously, because no importance was attached to ideological and political work, nor to the building of spiritual civilization, following the opening up to the outside world, the six vices, including pornography, drug use, and gambling were introduced, and corrupt practices were prevalent. Before these malpractices can be corrected, there must be conscientious improvement and rectification, as well as deepening of reform, resistance to the corrosion of the ideological work style of bourgeois liberalization, a crackdown on economic crimes, and other measures. There must be a gradual correction and cleaning out. Therefore, fundamentally speaking, improvement and rectification are advantageous for creating the internal stable economic conditions for the opening up to the outside world; advantageous for establishing a regular order in foreign trade, improving the foreign trade mechanisms, and improving the investment environment; advantageous for establishing relations of economic cooperation with various countries; and advantageous for improving the quality and the economic results of the opening up to the outside world.

Next, I think that the economic sanctions imposed on China by some Western countries, although causing China some difficulties in economic construction and scientific and technological work—for example, difficulty in getting foreign loans, restrictions on the importation of some high technologies, and so forth—do not have a very big effect on China's economy as a whole.

Over the past year or more, in China's work of improvement and rectification, initial results have been obtained. The recent Fifth Plenary Session formulated the goals and measures for improvement and rectification and the deepening of reform; and, based on 40 years of experiences and lessons, established the guiding ideology that in construction and reform there must be a solid, sustained, stable, and coordinated development, preventing the bias toward being overanxious for quick results and constantly improving economic results. The relationship between improvement and rectification on the one hand and the deepening and perfecting of reform on the other hand should be correctly understood and handled. At the same time we should uphold the policy of opening up to the outside world, vigorously make use of foreign capital and advanced technologies, and more effectively expand foreign trade and economic and technological exchange. The central authorities have announced that the basic policies and measures for the special economic zones have not changed, and in practice they are being gradually perfected. In addition, we must open up to the outside world in all directions, enhancing the economic ties and cooperation with the Asian-Pacific Region, the Third World, and the socialist countries. The potential in this respect is very large. Providing we work hard there will be bright prospects.

Under the current circumstances in China and abroad, in which some difficulties exist, I take a cautiously optimistic attitude toward China's future development of foreign economic relations and trade. My initial forecast is that, after the improvement and rectification, China's exports will grow steadily and its unnecessary imports will be appropriately reduced. In foreign trade, the unfavorable balance can be changed to a favorable balance. In addition, the surplus from non-trade foreign exchange can insure the repayment of the principal and interest on the foreign debt, obtain a balance in international payments, and tide through the debt repayment peak in the early nineties. With regard to the use of foreign capital and the introduction of technologies, we will emphasize helping the more than 8,000 foreign business investment enterprises to be run well, using foreign loan projects well and striving to improve their economic results and social benefits. We must get a tight grip on completing the construction of the more than 10,000 foreign venture enterprises and loan projects now under construction on which agreements were signed. At the same time we must vigorously improve and perfect the investment environment, enhance the attraction for foreign capital, and, in accordance with China's capability for digesting and putting into complete sets, absorb, in an appropriate measure and with the

optimum choice, new foreign capital that conforms to China's industrial policy. With regard to the foreign advanced technologies, which over a period of 10 years have already been or are now being improved, we will strive to digest, absorb, improve, and blaze new trails with them, giving full play to their role. In addition, we must vigorously further expand technological cooperation with various countries of the world, and, particularly in the weak industries of agriculture, energy, communications, and raw materials, enhance the work of popularizing the absorption and application of foreign advanced technologies in order to obtain real results.

Looking at China's work of opening up to the outside world in the nineties, we certainly can, on the basis of summing up the experiences of the past 10 years, do the work better and more effectively in a down-to-earth manner, so that it plays a greater promotional role in the course of China's modernization.

**"Prospects for Economic and Trade Relations Between the Chinese Interior and Hong Kong," by Zhang Peiji [1728 1014 1015], Director of the International Trade Research Institute, Ministry of Foreign Economic Relations and Trade**

Since China began to carry out reform and the opening up to the outside world, particularly after the signing of the Sino-British Joint Declaration, the economic and trade relations between the Chinese interior and Hong Kong have developed swiftly. The economies and trade of the two places are closely tied together, and there is a mutual economic relationship in which the economy of each one occupies an even more important position in the other.

According to Hong Kong's 1988 statistics, the interior's exports to Hong Kong accounted for 31 percent of Hong Kong's total imports, among which the amount of the interior's commodities transiting through Hong Kong accounted for 84 percent of the interior's export to Hong Kong. Also, over the past several years there has been a big growth in the interior's imports from Hong Kong, and bilateral trade has developed. In the same year Hong Kong's exports (including the export and transit of Hong Kong products) to the interior accounted for 27 percent of Hong Kong's total export, among which Hong Kong's products exported to the interior accounted for 17.5 percent of Hong Kong's total exports, and its products transited to the interior accounted for 34.5 percent of Hong Kong's transited products. According to 1988 business statistics of the Chinese Ministry of Foreign Economic Relations and Trade, business statistics for 1988, the interior's exports to Hong Kong accounted for 31.6 percent of its total exports, and its imports from Hong Kong accounted for 18.4 percent of its total imports. It can be seen that the interior's trade with Hong Kong occupies first place the trade of each. From 1979 to 1988, the amount of the Hong Kong region's agreements for direct investment in the interior was \$17.85 billion, accounting for 63 percent of the total direct investment that the interior attracted from

abroad. In these years a considerable part of Hong Kong's manufacturing industry was transferred to the interior for processing and production. The interior supports the development of Hong Kong's manufacturing industry, and Hong Kong supports the interior's reform and construction. This development is highly advantageous for both sides.

The nineties will soon be upon us. Amid turbulence the world world economy will continue to grow, and it will develop further in the direction of being an organic whole, multipolar, and regionally grouped. The European Community is vigorously preparing to implement the one market system in 1992. America and Canada have already implemented a free trade agreement. The Asian-Pacific Region is deliberating various forms of economic cooperation. The great number of developing countries are readjusting their economic policies. In order to get out of their economic plight, the Soviet Union and the East European countries are in a state of acute turbulence. Under these circumstances, Hong Kong and the interior are further enhancing cooperation and displaying economic vigor, which is of extremely important significance for the sustained development of Hong Kong and the interior and for the stability and prosperity of the Asian-Pacific Region.

In the new era, how are Hong Kong and the interior to further develop economic and trade relations?

First, with mutual trust and mutual support, through joint efforts maintain the stability and prosperity of Hong Kong and the interior.

The Chinese government has time and again declared that China's policy of "one country, two systems" will not change, and that China's reform and opening up to the outside world will not change. Also, through improvement and rectification and the deepening of reform, more advantageous conditions will certainly be provided for the further enhancement of cooperation with Hong Kong. Looking at the economic relations and trade between Hong Kong and the interior, we see that they maintain the stability and prosperity of Hong Kong and the interior and meet the fundamental interests of the two sides. Proceeding from long-term interests, we should in common safeguard this overall situation.

Second, fully display the superiorities of Hong Kong and the interior, further enhance economic and trade cooperation, learn from each other's strong points to offset each other's weaknesses, and, during the fierce competition on the international market of the future, maintain the superior position. Hong Kong is a free port. Its information is good, its channels are wide, its equipment is advanced, and its experience is rich. In the Asian-Pacific Region it is an important trading center, information center, financial center, and shipping center. In the interior the land is vast and the natural resources are abundant, labor power is plentiful, the categories of industrial departments are complete, and scientific and technological forces have a considerable foundation.

There is already a certain basis for the economic unity of Hong Kong and the interior, and if their complementary role is further displayed the potential will be enormous. Consideration can be given to:

1. Give full play to Hong Kong's role as an entrepot port and its bridging role as a trade center linking the two shores of the strait and other areas, and further develop the trade between Hong Kong and the interior.
  2. Hong Kong's enterprises and the interior's enterprises are cooperating in the development of energy resources and production work, are together solving the problems of the two sides' urgently needed energy resources and raw materials, as well as important parts, replacing the imports and reducing the payments of foreign exchange for imports. Individual enterprises and a small number of enterprises have a certain difficulty in developing energy resources and basic industries with large investments that get results slowly. However, if the relevant sides unite, this will be possible. From the long-range view, it is highly necessary.
  3. Initiate scientific and technological interchange and personnel interchange, develop new products, improve the grades of the "three comings and one makeup" processing businesses, enhance cooperation on a higher level, and expand the creation of foreign exchange through exports. The interior can lay particular emphasis on scientific and technological research and on the organization of production, and Hong Kong can lay particular emphasis on market development. Thus, the united forces will be inexhaustible.
  4. Make use of the advantageous condition that Hong Kong acts as the Asian-Pacific Region's financial center, attract foreign capital, and further expand direct investment in the interior.
- In the future all of the interior's policies will be aimed at maintaining stability and continuity. In the improvement and rectification, the investments in China by foreign enterprises will be further welcomed. The focus will be on the development of relevant projects that meet the demands of China's industrial policy. The interior will continue to improve the investment environment, provide preferential policies, simplify various procedures, and appropriately solve problems in joint venture and cooperative production. In this respect Hong Kong can play a greater role.
- We deeply believe that in the nineties the prospects for economic and trade cooperation between Hong Kong and the interior will be vast. Through hard work by the two sides, Hong Kong will continue to maintain its stability and prosperity, display the vigor of the "Four Small Dragons" of Asia, and advance with big strides toward a higher level. Through improvement and rectification and the deepening of reform, the interior's national economy will maintain a sustained, stable, and coordinated development, and achieve the goal of quadrupling the gross value of national output by the end of this century.

**"Pay Serious Attention to the Development of the Complementary Economic Relationship Between Hong Kong and the Mainland," by Dai Yuanchen [2071 0954 2525], Member of the Economic Institute, Chinese Academy of Social Sciences**

After the "4 June" disturbance, certain personages in Hong Kong produced all sorts of misunderstandings and misgivings about China's policies, and many people, while preparing for both eventualities, asked some personages abroad to come to Hong Kong and help study a new development strategy. Of the focal points of the new development strategy, one was to ask various Western countries to provide international guarantees to Hong Kong people who emigrate, in the name of stabilizing the Hong Kong people's morale, essentially opening a "peace gate" through which they could leave at any time. The other focal point was to advocate that economic development be turned toward all directions in the Pacific region, in the name of not putting all one's eggs in one basket, essentially advocating a weakening of Hong Kong's economic ties with the mainland. On the surface this new development strategy suits Hong Kong's interests, but actually it is not advantageous for Hong Kong's development. Therefore, I want to give some explanations of the complementary economic relationship between Hong Kong and the mainland.

Hong Kong's geographical position and population makeup determines that the economic and interest ties between it and the mainland are inseparable. Historically Hong Kong's development was like this, and it is still like this. Over the past 10 years Hong Kong's economy has developed very quickly. To a considerably large degree this was because it benefited from the mainland's reform and opening up to the outside world, which caused a complementary formation of a new situation and the attainment of a new level between Hong Kong and the mainland. The total trade figures for Hong Kong and the mainland, according to Hong Kong's trade statistics, are as follows: In 1978 the figure was HK\$10.8 billion and in 1987 it was HK\$205.3 billion, an increase by 18 times in 10 years, a yearly growth rate of 38.7 percent, and 10 to 15 percentage points higher than each side's yearly growth rate in the total amount of foreign trade. This is also to say that if there is not a complementation between Hong Kong and the mainland, the growth in trade will not be all that fast. Hong Kong is now the mainland's entrepot port. In the 10 years the yearly rates of increase in transiting out and transiting in were respectively 42 percent and 87 percent. Entrepot trade has made Hong Kong's Kuiyung Dock the container dock with the world's largest handling capacity, and has also caused the mainland to fairly rapidly make the transition from closed to open, and to fairly rapidly augment its ties with the world economy. The development of Hong Kong's industry suffers from inadequate labor, but Hong Kong is unwilling to allow mainland people, whose cheap labor is a valuable resource, to migrate to Hong Kong and vie with Hong Kong people for the "rice bowl." Over the past several

years, more than 30 percent of Hong Kong's labor-intensive industries have moved to the mainland. In Guangdong Province alone, more than 2 million workers are engaged in "three comings and one makeup" labor for Hong Kong companies, about equal to three times the 870,000 workers in Hong Kong's manufacturing industry. Many products that bear the Hong Kong manufacturing mark in reality were produced or assembled on the mainland. The mainland not only absorbs investment by Hong Kong's private capital, but also invests in Hong Kong a total of nearly HK\$80 billion. Of all the investment by countries and regions in Hong Kong, the proportion of Chinese capital has risen to third place. Therefore, in the amount of investment and in the structure of industry, Hong Kong and the mainland are complimentary. As for the remaining industries, like the financial industry and the tourist industry, there is no need to go into detail.

Besides an objective foundation for the economic complementation between Hong Kong and the mainland, an important condition is mutual benefit. Hong Kong's complementation with the mainland makes money, and the mainland's complementation with Hong Kong obtains valuable opportunities for development—thus there are benefits to both sides. The criterion for mutual benefit is for the two sides to be able to get fairly good comparative interests. Hong Kong's enterprises can develop economic ties with the surrounding Pacific Region and even the whole world, but the mainland is the closest place to Hong Kong. In a certain sense we can say that the mainland is Hong Kong's hinterland, and developing economic ties with the mainland enables Hong Kong entrepreneurs to get the maximum comparative interests. This is not only applicable to trade and industry, but is also connected to the flourishing of Hong Kong's tourist industry and the development of the mainland's tourism. The flourishing of Hong Kong's financial industry and the mainland's opening up to the outside world are interdependent, and the business done by the mainland is worthwhile to Hong Kong people. Of course, complementation is valuable to the mainland. The mainland can develop direct economic ties with all places in the world, but through Hong Kong it can use ready-made trade channels and information, financial, and transportation services. Letting Hong Kong people make money is worthwhile to the mainland, and is not sufficient for a recurrence of "pinkeye."

Complementation must be mutually beneficial, and also this mutual benefit must be long term and stable. This requires that China's political situation be stable, requires that the policy of reform and opening up to the outside world not change, and requires that China's economy develop in a sustained way. I think that these things can be done. Therefore, the idea of certain Western countries providing guarantees for Hong Kong people to migrate is a rotten idea. Hong Kong people who migrate are no longer Hong Kong people. How can this idea count as Hong Kong's development strategy? The mood of the Hong Kong people is now very contradictory. They are unwilling to leave this precious land,

where it is easy to make money and where life is comfortable and convenient, but they have all sorts of misgivings about the future. Provided they dispel their doubts and suspicions, their mood can be made calm and unruffled. The development strategy discussed above makes Hong Kong, from first to last, maintain a shilly shallying mood. There is no use in my talking more about whether, in the final analysis, this advantageous or disadvantageous for Hong Kong's development.

Finally I want to discuss the viewpoint that complementation needs to be escalated. Complementation is now low-level complementation, or is in its "primary stage," and the potential of the two sides cannot be fully displayed. The main challenge that Hong Kong now faces is that its technological progress and product renewal are backward compared to those of some other regions, and Hong Kong needs to develop high-tech industries. In this respect the mainland has software and Hong Kong has hardware. By establishing large enterprise groups, the strong points of the two sides can be used and their skills can be displayed in international competition. I feel that there are not now many people who see an escalation in complementation, but this is truly a new strategic idea. When many people understand its importance, it will gradually change from idea to implementation.

#### **Economists Discuss Trends for 1990's; Part 4 of 4**

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[Article by Cheng Li (2419 3810), staff reporter in Beijing: "China's Economic Trends in the Nineties—Record of Speeches at a Symposium of Chinese Economic Experts (Part Four)"; parts one and two were published in JPRS-CAR-90-028]

[Text] "Reform and Opening Up to the Outside World Further Promote Hong Kong's Prosperity and Stability," by Luo Jiahuan [5012 0857 7536], Director of the Hong Kong and Macao Affairs Institute, Hong Kong and Macao Affairs Office, State Council

After the Third Plenary Session of the 11th CPC Central Committee, under the impetus of China's policy of reform and opening up to the outside world, economic cooperation between the mainland and Hong Kong entered a new stage. The domain of cooperation has expanded from the past, when it was mainly in trade, to finance, industry, science and technology, communication, and tourism. Ties in all aspects of economic relations and trade are developing more vigorously. In the 10 years from 1979 to 1988, Hong Kong's annual average economic growth rate was 8.3 percent, maintaining a momentum of high-speed growth. It should be said that the interior's policy of reform and opening up to the outside world is advantageous to the promotion of Hong Kong's prosperity and stability.

Below let us list some of the main circumstances leading to economic cooperation between the two places:

First, there is the trade aspect. In 1950 the total amount of trade between the interior and Hong Kong was HK\$2.043 billion; in 1978 it increased to HK\$10.845 billion; and in 1988 it rose sharply to HK\$288.572 billion, an increase over that in 1950 of 140 times and an increase over that in 1978 of 26 times. Over the past 10 years, the position and role of the interior in Hong Kong's import, export, and entrepot trade have been constantly strengthened. Since 1980 the amount of the interior's entrepot trade with Hong Kong has always ranked first in Hong Kong's total amount of entrepot trade. Since the founding of New China, Hong Kong's interior import trade, with the exception of the period from 1968 to 1981 when it was in second place, has been in first place. Since 1984 the interior has become second only to America as the biggest export sales market for Hong Kong products. Without the slightest doubt, the trade contacts between the two places are daily becoming closer, playing a greater and greater promotional role in Hong Kong's economic development, and also making Hong Kong one of the interior's main sources for generating foreign exchange through exports.

Second, there is the financial aspect. Since China began the policy of reform and opening up to the outside world, there has been a big development in financial cooperation between the interior and Hong Kong. Hong Kong is an important area for the interior's import of foreign capital. From 1979 to 1988, foreign businessmen made direct investments in a total of 15,948 enterprises in the interior. Of them, there were more than 12,000 in which Hong Kong businessmen invested, about 80 percent. The actual amount of investment was \$12.1 billion; investment of Hong Kong businessmen was more than \$5 billion, over 40 percent. As for indirect investment, according to Hong Kong's British government's statistics, the remaining sum on loans made by Hong Kong financial organizations to nonbanking clients in the interior has already increased from less than HK\$100 million in 1978 to HK\$34.5 billion at the end of September 1988, a 10-year increase of more than 300 times. It is estimated that the amount of bonds, certificates of deposit, commercial notes, and other debt negotiable securities and instruments issued in Hong Kong by Chinese capital organizations is over HK\$10 billion. At the same time Hong Kong is also the place where most foreign investment belonging to the interior's enterprises is. Taking only industrial investment as an example, Chinese capital is in third place, behind only to America and Japan. The financial cooperation between the two places compensated for the interior's insufficiency in construction funds, and has also expanded the outlets for Hong Kong's funds, increased the profits of the financial industries and investors; and it is advantageous for enhancing its position as a center of international finance.

Third, there is the industrial aspect. Over the past 10 years there has appeared a swift development of the

mainland's coastal areas in the form of economic cooperation known as the "three comings and one makeup," which has become a new thing in the opening up to the outside world, and has opened a new chapter in the interior's industrial cooperation with Hong Kong. Because this form of cooperation is able to make use of the interior's abundant labor resources, fairly high worker quality, and cheap land, factory buildings, and raw materials, it has mitigated the difficulties that Hong Kong faces, and has effectively raised the competitiveness of Hong Kong's products and the profit level of Hong Kong's enterprises. Part of the area in the interior has become an enormous production base for Hong Kong. In Guangdong Province alone, there are now more than 10,000 "three comings and one makeup" enterprises, and they directly employ more than 1.5 million persons. There is no need for reticence in saying that this cooperation is also advantageous to the interior's economic development.

Fourth, there is the tourism aspect. Following the interior's thoroughgoing implementation of reform and opening up to the outside world, and the constant perfection of tourist facilities, China's—this country with an ancient civilization—attraction for foreign tourists has been further enhanced. With its fine transportation and communication conditions, Hong Kong has become the first stop for tourists going to the Chinese interior, thereby also promoting the flourishing development of the tourist industry in Hong Kong itself. According to the Hong Kong British government's statistics, in 1978 there were 2.05 million person-times of visits to Hong Kong by tourists, among which there were about 300,000 person-times of foreign tourists who went to China via Hong Kong. In 1988 there were 5.7 million person-times of tourists visiting Hong Kong, among which were 1.25 million person-times of tourists who passed through Hong Kong into the interior. In this year Hong Kong's tourist industry's income was about HK\$33.3 billion, and in making foreign exchange it was in third place after the textile and tailoring industry and the electronics industry.

Fifth, it is worth mentioning that in the past several years, in the daily developing economic and trade contacts between the interior and Taiwan, Hong Kong has played an important go-between role. No matter whether it is the trade contacts between the two shores of the strait, or the investment in the interior by Taiwan businessmen, a very big part of it is done through Hong Kong. According to statistics, in 1979 the total amount of entrepot trade between the two shores that went through Hong Kong was only \$77 million, and in 1988 it reached \$2.7 billion, a sharp increase of 35 times in nine years. When Taiwan compatriots go to the interior to visit relatives, sightsee, or tour; they also basically make Hong Kong the transfer station. Without the slightest doubt, this brings considerable income to the relevant trades in Hong Kong.

Sixth, a good beginning has been made in scientific and technological cooperation between the interior and Hong

Kong. Over the past several years, the two sides have adopted many forms of scientific and technological interchange and cooperation, for example: cooperative research, technical training, scientific and technological exhibits, and technological trade. Some of the interior's scientific and technological forces are combined with Hong Kong's industry, sales channels, and market information. There will certainly be formed an enormous production force, which will be advantageous for developing new products in common and for opening up markets abroad.

The above situation fully illustrates that China's reform and opening up to the outside world has really opened up an unprecedentedly vast field for economic cooperation between the interior and Hong Kong. This cooperation was established on the foundation of each side's displaying its own superiorities, of mutual promotion, of complementation and mutual benefit, and of common development. It is beneficial for the interior's four modernizations, and it plays an extremely important and beneficial role in Hong Kong's prosperity and stability. Facts have already proved and continue to prove that the "one country, two systems" and the interior's reform and opening up to the outside world will certainly promote Hong Kong's sustained prosperity and stability. Hong Kong's stability and prosperity are beneficial for the mainland's prosperity and strength. This is a relationship in which each side shares weal and woe, and in which each side brings out the best in the other.

**"Problems Regarding Economic Mechanisms Must Be Resolved While Improving Economic Environment and Rectifying Economic Order," by Liu Guoguang [0491 0948 0342], Deputy Director of the Chinese Academy of Social Sciences**

Although we are not sure what the economy will be like in the 1990's, there is one thing which is quite clear: The quadrupling of gross industrial and agricultural output value; the second step of the three-step strategy, that is, the per capita income of \$800 to \$1,000 by the year 2000 can be attained with the originally planned growth of 7.2 percent. The actual growth in the first 10 years was around 10 percent; thus, a growth of five to six percent is enough in the latter 10 years. I do not think growth is a big problem for us. According to our achievements made in the past, the growth of five to six percent will be quite easy. The question lies in rationalizing the economic structure and attaining better economic results. To solve this problem, we must avoid drastic fluctuations.

The policy of "sustained, coordinated, and steady" development proposed by the Fifth Plenary Session was not in the original manuscripts. It was added to the communique later.

To develop in a sustained, coordinated, and steady manner, it is necessary to proceed from our national conditions. The communique said that the bitter lesson drawn from the past 40 years was "deviating from national conditions, exceeding national strength, being overanxious for quick results, and drastic fluctuations."

This guiding ideology caused great losses. For this reason, during and after the improvement and rectification, it is necessary to unswervingly follow the road of sustained, coordinated, and steady development, and never try to seek unrealistic high growth. Whether in the past or at present, our problems occurred in this regard. Measures have been adopted to improve the economic environment and rectify the economic order because we were swollen headed and used some "modern" economic theories to support the swollen-headed measures; that is, the theory that "inflation is useful" and using inflation to stimulate economic development.

To attain our development policy, we cannot merely rely on the guiding ideology to effect a change of the current mechanism. Naturally, guiding ideology is very important and has been especially stressed. Moreover, there is a question of deepening reform because the old mechanism had some factors which magnified the total amount and distorted the structure. As these factors existed in the old structure and the reform measures were not well-coordinated, they aggravated the factors of magnification. Hence, even with the best guiding ideology, the mechanism will continue to deteriorate. It will deteriorate when the administrative control is lifted and during the improvement and rectification work. There is pressure now requesting all-round lifting of restrictions. Hence, it is necessary to deepen reform to solve this question.

In the 10 years of reform, we mainly delegated powers, shared benefits, and used material incentives to arouse the enthusiasm of enterprises, localities, and workers. As the self-control system has not been established in the microeconomy and the readjustment and control mechanism of macroeconomy has not been perfected, problems are bound to crop up. The macroeconomic control and regulation mechanism and the microeconomic self-control mechanism can be solved by deepening reform rather than the tightening policy. The tightening policy can only solve temporary problems.

Regarding analysis of the drastic fluctuations, we hold that there are two reasons: First, the mistakes in policy and overanxiety for quick results, and second, the defects in mechanism and the big pot mechanism. While discussing the economic situation before September 1988, some comrades said that the problems were due to mistakes in policy and proposed stabilizing the economy and steadily making progress. However, this opinion was not accepted at that time. Some other comrades insisted that the problems were due to mechanism and there were not mistakes in policy. Of course I also realized the mechanism problems. However, if we had stressed the problem of mechanism at that time rather than the mistakes in policy, it would mean that improvement, rectification, and the tightening policy were unnecessary. To what extent would the economy develop if we had allowed inflation to continue? Hence, it is important to stress the two reasons respectively at different periods. Sometimes we must stress the mistakes in policy and check the excessive development. Otherwise, it will be

impossible to carry on reform and development. It is necessary to improve the economic environment, rectify the economic order, and advance steadily. Because of the panic purchases in September 1988, we were forced to accept this, attributing it to "attention paid too late to the issue." The Central Plenary Session made an essential analysis and the CPC Central Committee and State Council undertook the responsibility for the mistakes in policy decisions. Naturally, it was not wrong to find reasons from the mechanism and try to solve the problem through reform because we were not against reform. Nevertheless, the undue stress on reform at that time was tantamount to covering the mistakes in policies and shelving the improvement and rectification work indefinitely.

However, we have achieved initial results through improvement and rectification over the year. Now it is time for us to stress another reason for the unstable economic life and emphasize the problem in mechanism as there are still three years to go for improvement and rectification. Meanwhile, it is necessary to stress deepening of reform and link it with the spirit of reform of the 13th Party Congress.

The guiding ideology has been straightened out over the year. To attain quick results in improving the economic environment and rectifying the economic order, it is right to increase some planning and administrative methods. However, we cannot always rely on these two methods as they cannot last long. For example, the prices cannot last long by relying on subsidies and price restrictions. Apart from the financial burden, they distort prices and obstruct structural readjustment. Hence, although administrative methods are necessary, sometimes we must adopt more economic methods, try to integrate planned economy with the market, and correctly guide the market-oriented reform. We did so in recent years. Otherwise, there would be no peanuts on the market. We would not even have had a taste of peanuts in the past 20 years. You have been able to buy anything you like in these past 10 years. We should not underestimate the achievements of reform or forsake the direction of a planned commodity economy. Even today there is nothing you can buy in the Soviet markets.

Although we have achieved some results in the improvement and rectification work over the past year, they are superficial. The growth has slowed down and the fear of price hikes has been eased, but the problems at a deeper layer have not been solved. A change must be effected in the structural and efficient problems and structure of interests. If these problems are not solved, they may crop up at any time. To essentially solve these problems, we must take the road of deepening reform.

Lastly, I think the improvement and rectification work over the past year has turned out favorable conditions. Apparently, currency and general demand are under control, the gap between supply and demand has been narrowed, and the buyer's market has partly taken shape. At least, it is a good opportunity compelling enterprises

to promote reform. Naturally, the current buyer's market is not yet consolidated and is still abnormal. It is a temporary phenomenon caused by the austerity policy. There are great difficulties to gradually normalize this phenomenon. We cannot expect to solve the problem overnight. However, we should form and consolidate the limited buyer's market as it will be advantageous to competition, attaining better results, and improving operation and management. This is indeed a golden opportunity. Meanwhile, it is also a good opportunity for the introduction of other reforms. The following serves as a typical example: The reform of transport fares this year involved around 8 billion yuan, yet it did not affect the prices because the general situation turned for the better. As it would not matter much by taking big strides, I think this is a good opportunity also for effecting a change of mechanism. Naturally, we should be prudent, coordinate it with improvement and rectification, and deepen reform. Only by doing so can we attain a sustained, coordinated, and steady development in the three year rectification and avoid drastic fluctuations after three years. Then we will be able to improve our economic quality. Although the growth is only five to six percent, I think it is good enough. If this growth is maintained and the structure is rational and efficient, we will certainly be able to attain the strategic goal of the second step in the 1990's.

**"Combine Improvement and Rectification With the Deepening of Reform," by Xue Muqiao [5641 2550 2890]**

Many comrades attending the forum have aired some extremely valuable views on prospects for our economic development. I am not prepared to say any more. May things be summed up as the following? First, due to the loss of macroeconomic control starting in the first half of 1984, the difficulties caused have been extremely serious. We should in no way underestimate the thinking that a short spell of tightening can tide us over the difficulties. We must make a painful decision to continue working on improvement and rectification. Second, in one year, the market has changed from brisk sales to sluggishness, with a step-by-step decline in industrial production growth. This is not a bad phenomenon. It represents the initial results obtained in the improvement and rectification effort and provides a good opportunity for us to readjust the industrial mix and the product mix and to deepen the reform. Unusually quick growth is naturally followed by unusually slow growth (compared with excessive growth of a few years ago), with a change from brisk sales to sluggishness. Only in this way can there be a stimulation for everyone to drop the sense of an overheated economy and scale down industries and products involving abundant supplies while stimulating industries and products involving limited supplies. This will enable a seriously irrational economic mix to become rational. Thus, there is a guarantee for the sustained, steady and coordinated development of the national economy in future.

Given the negative growth (-2.1 percent) of industrial production in October 1989, many comrades again cried about a slide demanding an immediate universal relaxation. This would give rise to the same mistake beginning in the second quarter of 1986. Just as it was not a slide with the slow growth (4.4 percent) in the first quarter of 1986 compared with the unusually high growth rate (23.2 percent) in the first quarter of 1985, so a comparison between October 1989 and October 1988 with its unusually high growth rate (20.4 percent) actually points to what had still been accomplished under quite serious conditions of a serious shortage of energy and raw materials. If we should arbitrarily accelerate the pace of growth, a big slide like the one that appeared after "three years of a Great Leap Forward" is likely to come about. Given more fluctuations, the people of the whole country will lose confidence in our leadership. The "Decision of the CPC Central Committee on Further Effecting Improvement and Rectification and Deepening the Reform" pointed out: "Strive for an average annual five to six percent growth of the gross national product." Industrial production should thus accordingly grow seven to eight percent. The growth rate of industrial production from January to October in 1989 was 7.7 percent, with the combined annual total likely to be less than seven percent. But this is based on the unusually quick growth (20.7 percent) of 1988 as a base. Given the average in two years, the growth rate is definitely above 13 percent. The industrial production growth rate was high in the first half of 1989 and low in the second half. In 1990, the growth rate will be low in the first half and high in the second half. The combined three-year total is still likely to be above 10 percent. This is not a slide, but instead a return to normal growth.

Due to the sluggish market, there has been a drop in commodity prices in the past three months, given stability. This is welcomed by the people of the whole country. But as production enterprises run into serious difficulties, the workers of enterprises with suspended or reduced production activities will also face serious problems. This is a consequence of blindly pursuing excessively high growth several years ago resulting in the industrial mix and the product mix becoming irrational. An answer cannot be the maintenance of the status quo. There must be readjustment of the industrial mix and the product mix. This calls for a lot of work and a decision to make readjustments. We must close down, suspend, integrate and convert some factories. Those products that do not sell must be priced lower and auctioned off. In countries with free market competition, this is a common occurrence. But this is a big disaster for China, which is accustomed to sharing in the same big rice pot and taking allowances from the state. To have reforms, we must not be afraid of such a phenomenon. Given an irrational mix, we must welcome this phenomenon and realize that reform must allow free competition, with the inevitable survival of the fittest.

At a time when the state is changing from overall responsibility for profits and losses to free enterprise

competition, we must put up with a little pain. Our improvement and rectification effort cannot trace the old path and must follow the path to deepen the reform. At present, there is the need to adopt some administrative means to readjust the industrial mix and the product mix. But the results would not be very substantial. A fundamental way is to deepen the reform and rely on the law of value and encourage free competition with the survival of the fittest. Thus, we can readjust the industrial mix and the product mix and improve the economic results of enterprises. In our approach to openness, we must learn how to compete freely in the international market. To compete freely in the international market, we must first encourage free competition in the domestic market. Feeding on the same big rice pot is by no means a superior feature of socialism. It is instead a fundamental factor impairing the prestige of socialism.

A slowdown in production and market sluggishness of course brings many difficulties. A solution is by no means tracing the old path of the 1960's and the 1970's when everything was purchased and distributed in a unified manner. Nor could we follow the 1986-1988 old path, with another galloping ghost of inflation. Instead, we must blaze a new trail of really deepening the reform through improvement and rectification and using the way of combining a planned economy with market regulation to readjust the proportionate relations of the national economy. We must take advantage of market sluggishness as an opportunity to get rid of a number of enterprises that have long lived off state subsidies (a fundamental reorganization is to be made where an enterprise can be saved) and of enterprises which cause serious wastes repeatedly and use high-grade materials to produce low-grade products. We must force the suspension of the production of unsalable products and a switchover in production, so that all enterprises can show maximum economic results. This is another big effort in restructuring the national economy. Of course, this big effort also cannot bring immediate results. Things must proceed in a planned and gradual manner. But the direction must be clear-cut so we should not again lose our bearings. Given a clear-cut direction, great determination and steady steps, along with the real combination of upholding improvement and rectification with the deepening of reform, we can walk on the path to a brilliant future.

#### Conditions Not Suitable for 'True' Market Economy

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[Article by Xu Jingyong (6079 4842 0516), professor, Xiamen University economics department: "Pure Market Is Only a Theoretical Abstraction"]

[Text] The market discussed by Marx and Engels in *Das Kapital* and a series of other works referred generally to a true or complete market, and monopoly was regarded

as an exceptional economic phenomenon. Marx pointed out: "In theory, we assume, the law governing the capitalist mode of production has developed in its true form. In reality, only something similar to what is the true form has ever existed." (*The Complete Works of Marx and Engels*, Volume 25, p. 195.) This tells us that we must study hard before we can creatively apply the abstract theories from the works of Marx and Engels to the living reality of socialist practice.

People usually call market prices the lever for regulation through the market. Only under certain environmental conditions is it possible to give full play to the regulatory role of this economic lever. These environmental conditions are: 1) prices are the product of the combined and spontaneous actions of all the factors with which a market is formed; 2) prices change constantly with the changing values of commodities and currencies and the fluctuations of supply and demand; 3) products and output must change quickly to meet the changing market demand, and there is no time lag factor; and 4) all kinds of monopolies, including natural monopoly, market monopoly, and administrative monopoly, must be eliminated.

Thus it can be seen that to form a true market and give full play to the regulatory role of the market mechanism, it is necessary to have a free and completely competitive environment. In perfect or free competition, all those engaged in the exchange of products must have access to complete and accurate market information; there is no way for individual and even a few buyers or sellers to independently control market prices, as they are the receivers and not the makers of market prices; and all production factors essential for the production of goods, including human and material factors, can be obtained quickly and freely, that is, all production factors can enter the market without any obstruction. The paradigm of average profits and production prices set up by Marx in Volume 3 of *Das Kapital* presupposes not only the existence of the environmental condition of perfect or free competition but also the brevity of economic activities in time and space. Here the distribution of resources on the basis of price and profit swings is decided directly by the mobility of the production factors. When this mobility is weakened in one way or another, the distribution of resources, which is based on price and profit changes, is bound to be subject to all kinds of restrictions. Under the circumstances, the distribution of resources will have to refer to or base on nonmarket standards at the same time.

It is self-evident that perfect or free competition exists in a kind of economic system, in which economic activities are placed on a completely laissez faire basis. Acting on the market are spontaneous forces without any external interference, production factors moving freely, and market prices freely and sensitively reflecting the changes in supply and demand. Obviously the environmental conditions for perfect or free competition do not exist in real life in China. The competition we usually

talk about is generally imperfect competition or competition with monopoly characteristics. The main cause of this condition is the existence of obstructions to entrance into the market. First, entrance is restricted by the level of the market's development or the degree of the economic system's openness. The less developed the commodity economy and the lower the degree of the economic system's openness, the more serious the obstructions to the entrance of the production factors and products into the market and the greater the possibility of having a monopoly. Conversely, the more developed the commodity economy and the higher the degree of the economic system's openness, the easier it becomes for the production factors and products to move in the market, the harder it is for a monopoly situation to occur, and the easier it is for a monopoly to be eliminated if one does occur. Second, the narrower the market space, or the stronger its local character, the more limited the market's capacity is, and the easier it becomes for a monopoly phenomenon to occur. The reason includes the factor of the degree of socialization which is linked to the level of productivity and the factor of administrative interference which is related to the barriers between higher and lower levels and between different departments or regions. On the latter point, market monopoly is often intertwined with administrative monopoly. China is a developing country, at present still in the primary stage of socialism, and in a period of transition from the old to the new system. The obstructions to entrance into the market are particularly serious, and market monopoly is all but unavoidable. The monopoly in the economic life of China in the present stage also manifests itself as state monopoly. This is the inevitable product of the traditional and highly centralized model of socialist economic system. Under a traditional, highly centralized, socialist economic system, it is generally the central government that formulates and issues all-inclusive mandatory plans to directly control the macroeconomic variables and the scope of microeconomic activities. Especially on the microeconomic level, the state has unified control over the income and expenditure of enterprises, monopoly of purchase and marketing of products, and unified distribution of the production factors. Thus the state directly controls investment and output of business and production and circulation of society as a whole, which is a kind of absolute monopoly.

Essentially, the power of prices to regulate market supply and demand lies in the variability of prices themselves. That is, prices, through their own changes, should reflect market supply and demand, thereby constantly affecting the economic activities of those concerned. In real life, however, owing to interference by nonmarket factors, the prices of a rather large part of products do not change with the changing values of commodities and money and relation between supply and demand, but remain relatively stable. Besides, even though prices can react positively to the scarcity of resources, the reaction can be limited by taxes, interest rates, wages, and other administrative control systems, thus weakening the regulatory

role of the market mechanism and prices. In the present stage in China, because production of a considerable number of enterprises is controlled by state plans and a rather large portion of the raw and semifinished materials needed by them for production is supplied by the state, and because the selling channels and prices of their products are to a certain degree controlled by the state, it is difficult through price changes to regulate market supply and demand and then achieve a balance between supply and demand. This is true not only in the product market but also in the money market. For a considerably long period ahead, the short supply of funds will be an objective fact that cannot be ignored in China. At the same time, in order to artificially lower the cost of funds used by enterprises, the flexibility of interest rate (the price of money) to change will be greatly limited, and reliance on interest rate as a signal to regulate money market supply and demand will inevitably lead to excessive demands for funds. Then it will be impossible to achieve a balance between money supply and demand. Moreover, since the beginning of China's economic reform, even though the market mechanism has been introduced in the distribution of the labor force and the movement of the labor force is being guided through changes in wage rates, it is still impossible to use wage rates as the lever to coordinate the distribution of labor resources among different regions, departments, and enterprises on a nationwide scale, because it is still impossible to completely eliminate the restrictions of the old personnel management system. This explains that in the present stage in China, the market mechanism is still subject to many restrictions and far from being able to play an independent economic regulatory role.

At present, a widely held view is that relaxation of price control in a planned, step-by-step, and limited way is an important aspect of the reform of the traditional, highly centralized price control system. However, we must not conclude that so long as prices are decontrolled and regulated completely by market supply and demand, rational comparative interests will result naturally, and the different sectors of the national economy will develop evenly and harmoniously. If we fail to see it this way, we will be at a loss to explain why in today's world some capitalist countries with a highly developed commodity economy and fairly well-developed markets still have to impose necessary government intervention on the prices of certain important products, including setting ceiling and minimum prices, the prices for a few agricultural products, and formulating a series of comprehensive policies to protect agricultural production, the interests of farmers, and price stability. It is a thought-provoking phenomenon that, in the past few years, while many socialist countries were to a certain extent abandoning the highly centralized mandatory planning system and turning toward a planned commodity economy with emphasis on the introduction of the market mechanism, different types of countries, namely, the capitalist countries, have keenly felt the negative results caused by the spontaneous market forces, and therefore have strengthened intervention in

economic affairs, resulting in "regulated" or "planned" capitalism. As our country is gradually sublating the traditional economic system, which excludes the role of the market mechanism, people have come to understand more profoundly that the less developed the commodity economy, the more it necessitates strengthening the regulatory role of the market mechanism; and, that when the commodity economy is quite fully developed, necessary government intervention becomes indispensable. To put it another way, regulation through the market has become an indispensable means for the underdeveloped countries to develop their economies, but government intervention is being strengthened in the developed countries. This seems to be an objective law.

This leads to the question of how to correctly understand the mutual relation between the market mechanism or regulation through the market and government intervention. In the last few decades, the phenomenon of direct government intervention in economic affairs through macroeconomic policies has become a common occurrence in capitalist countries. To reduce unemployment or promote economic growth, the governments of some capitalist countries have used their powers to stimulate expansion of macroeconomic activities. To resist inflation, they have used their powers to impose necessary restrictions on macroeconomic activities. In capitalist countries, when the government acts through its administrative organizations to change tax rates and expenditures, it is called implementation of financial policies. When the government uses its authority to change the volume of money supply in order to achieve its macroeconomic goals, it is called implementation of the monetary policy. But, under the capitalist system, most economic policy decisions are made by individuals, and the flow of most resources is controlled automatically by the pressure of market competition. Owing to their lack of a public planning and control mechanism, the capitalist countries can hardly guarantee full employment, price stability, and a satisfactory growth rate. The governments of socialist countries naturally play a much bigger administrative role than those of capitalist countries. Under normal conditions, government organizations directly control all or most production units, and private ownership of the means of production is limited to a rather small scale. Income, and even price levels, are either directly fixed or indirectly controlled by the government. Owing to the public ownership of most means of production, the governments of socialist countries have extensive powers to influence and regulate the operation of the macroeconomy. In socialist countries, the central question in correctly handling the mutual relation between administrative intervention and regulation through the market is how to influence the price and income levels with the market mechanism to stimulate production, making it more efficient, while guaranteeing socialist rationality and fairness. Because economic growth spurred by the market mechanism can often lead to unfair distribution and a widening gap between the rich and the poor for a period of time, attention must be paid to bringing into play the role of

the state in regulating income by administrative intervention. It should be pointed out emphatically that pure and simple market mechanism or regulation through the market cannot possibly exist and play its role by itself. Because the microeconomic activities of enterprises can only have vitality when they are dovetailed organically with the macroeconomic objectives of society. In recent years, in the course of rural and urban reforms, people engaged in microeconomic activities have been seen to pay attention only to immediate and local interests at the expense of long-term and overall interests, and short-term economic activities of a plundering nature have occurred in business operations, which have weakened the momentum for expanding reproduction. To a very large extent this is determined by the inherent weakness of the market mechanism or market signals in duration and field of vision. To establish a strictly dependent relationship between the microeconomic activities of enterprises and the macroeconomic objectives of society, the forms of the means applied and the quantitative solutions used, all require a rather high degree of accuracy. However, this is limited by the experience and ability of the management personnel at various levels and the conditions for obtaining market information. Practice and experience have shown us that, first, the use of the market mechanism must be supplemented by necessary administrative means, because the complicated stimulating conditions needed to accomplish the planned tasks by purely economic means always have some shortcomings. Thus, the adoption of necessary administrative means is unavoidable. Second, when the economic structure is seriously out of balance, in order to make readjustments and especially significant corrections quickly to the "bottleneck" departments and links, it is often necessary to use highly centralized administrative means, because they are more effective and work faster than the market mechanism. However, it is a one-sided view to maintain that the market mechanism needs to be supplemented by administrative means only because the economic structure is seriously out of balance. In the final analysis, judging by the basic characteristics of a socialist economy, it is impossible to use the market mechanism or regulation through the market in its true form. In other words, even under normal economic development conditions, it is impossible for socialist economic operations to abandon the highly selective administrative means. It is impossible for a true market economy to coexist with a socialist economy. If consideration is given to achieving faster growth in a certain field or to overcoming the monopolistic trend which is bound to occur with a lack of buyers' conditions, then the proper use of administrative means is all the more indispensable.

As far as the developing countries, including China, are concerned, a true market is impossible to develop because, as well, a purely market-operating mechanism is built on the basis of a buyers' market. The so-called buyers' market refers to a market, in which the total effective supply of goods is growing at a suitably faster

pace than the total effective demand. Only in the environment of a buyers' market is it possible for the consumers to become the masters with the initiative in their hands to force the producers to pay attention to the development of market demand and quickly adapt their production accordingly. Thus the positive role of the market regulatory mechanism will be brought into full play. However, the reality in China is that there has always been a typical sellers' market and associated administrative coercion. This is directly related to the economic development strategy chosen in the early days after the founding of the People's Republic to give priority to the development of heavy industry with the emphasis on self-reliance. China is building socialism on a rather backward economic and cultural foundation. Therefore, in the initial stage of socialist development, China is inevitably faced with the choice between distribution efficiency or quick mobilization, and a balanced slow growth or an unbalanced fast growth. When a country is relatively backward in economic development and regarded as an underdeveloped country, it certainly will choose fast growth in an unbalanced way. Different from the strategy of unbalanced fast growth, the strategy of slow but balanced growth relies on the market system, which can indicate the consumers' preferences, and makes all economic sectors grow evenly as determined by the market. Historical experience has shown us that an economically backward country, if it follows a strategy of slow and balanced growth, will need at least two centuries to catch up with the economically developed countries. In order to shorten this slow process of economic growth, in the initial stage of economic development, it is imperative to sacrifice distribution efficiency and control the growth of consumption funds to quickly mobilize the economic forces. It goes without saying that unbalanced fast growth is a forcible growth. That is, government organizations with highly centralized powers forcibly control consumers' choices and consumption levels to insure a relatively high level of accumulation and investment. For the sake of the long-term interests, it is necessary to sacrifice temporarily the immediate interests. This inevitably will cause the purely market-operating mechanism to lose the condition for its existence and will retain to a certain extent the existence of state monopoly.

To sum up, in the circumstance of an abstract true or complete market, the operating mechanism is a pure market mechanism regulated by an "invisible hand." Under China's conditions, the market cannot be allowed to drift freely without the guidance and regulation by state planning. In other words, China's market mechanism is very different from the abstract true of complete market in the extent, form, and method to and with which its role is brought into play. The "invisible hand" and the "visible hand" play regulatory roles at the same time, and the "invisible hand" is controlled and regulated by the "visible hand." This is the fundamental characteristic of a planned commodity economy.

### **Survey of 403 State Enterprises**

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[Article by Du Haiyan (2629 3189 3601), Guo Jingang (6753 2516 0474), Zong Jiayin (0112 3444 0995), Xin Wen (1823 2429), Shao Liling (6730 left radical 3769 right radical 0448 3781), and Huo Xiaohu (7202 1420 5706) of the Economic Research Institute under the Chinese Academy of Social Sciences. The directors of the research were Dong Fureng (5516 6534 4356) and Tang Zongkun (0781 1350 3540). The following also assisted in the research and discussion: Zhang Ronggang (1728 2837 0474), Wei Anning (1414 1344 1337), Liu Xiaoxuan (0491 1420 3763), Liao Qun (1675 5028), Zheng Hongliang (6774 4767 0081), Chen Xiaomei (7115 2556 2734), Chen Yimin (7115 0001 3046), Dai Rui (2071 4213), and Miao Zhuang (5739 1104). Written in November 1989: "Rights of Autonomy of State-Owned Enterprises, Market Structure and Incentive Systems—An Investigation and Analysis of 403 State Enterprises"<sup>1</sup>]

#### **[Text] I. Introduction**

In China's 10 years of economic reform from 1979 to 1988, deep-going changes occurred in the state-owned enterprise system. However, even now, people within the country are not very clear about the orientation and degree of these changes and the relationship between these changes and enterprise efficiency. Also, because of incorrect information, several specious judgments and theoretical contentions based on insufficient evidence have also emerged. This article intends, on the basis of survey data from 403 state-owned industrial enterprises in 1988, to provide a positivist analysis of the rights of autonomy of state-owned enterprises, the market structure, incentive systems and their influence on efficiency during the reforms.

This report presumes that readers will already have a sufficient basic knowledge of the functions and efficiency of the traditional state-owned enterprise system and thus no general description of the traditional system is provided. Also, in the general analysis, there the further assumptions that the distribution of rights of autonomy is a major parameter delineating the relationship between state-owned enterprises and the government, that the market structure is the external framework of changes in this parameter, that the incentives structure is the microeconomic base of changes in this parameter and that efficiency is the result of the joint changes in these three elements during the reforms.

#### **II. Rights of Autonomy of State-Owned Enterprises**

The question of rights of autonomy was one focus in the survey of the 403 enterprises. For clarity and convenience in the analysis, from the indicators reflecting the actual distribution of the rights of autonomy, we have selected two of the most representative indicators: 1) the degree of market element in production activities ( $M =$

[1 - mandatory plan's output value]/total output value of the enterprise); 2) the retained profit rate of the enterprise (RT = amount of profits actually retained by the enterprise/total amount of profits realized). From the structural analysis and the empirical survey, it was observed that these two rights of autonomy differ with the degree of importance of an enterprise. Thus, in order to more closely reflect the actual distribution of enterprise rights of autonomy, we have combined these two as a joint indicator of rights of autonomy ( $S = 0.4M + 0.6RT$ ).<sup>2</sup>

### 1. The Sustained Expansion of Enterprises' Rights of Autonomy During the Economic Reforms

Looking at the sample overall, it can be said that during the reforms, the rights of autonomy of state-owned enterprises have seen sustained expansion. As we only have survey figures for the degree to which production was subject to planning (mandatory plan output value/gross output value of enterprise) for the three years 1985, 1986 and 1987, we have to use retained profit ratios to delineate the trends of change in rights of autonomy in the years before that. Although the two types of data are different, it is still possible to show the trend of change in rights of autonomy (see Table 1). From Table 1, we can see the relative stability of the trend of expansion of enterprises' rights of autonomy.

**Table 1. Changes in the RT, M, and S Figures for Rights of Autonomy of State-Owned Enterprises (Percent)**

		1980	1983	1984	1985	1986	1987
	N =	391	390	395	399	401	401
RT		16.54	21.81	23.47	28.39	32.58	34.17
M		—	—	—	50.76	53.58	55.88
	N =				241	241	241
S		—	—	—	37.34	40.98	42.90

Other relevant data on rights of autonomy can also support the above-mentioned statistical indicators. This includes, for example, the degree of participation by enterprises in the various types of plans (the proportion of the various plans which enterprises have the right to decide themselves). This has, through continued changes, reached

quite a high level (see Table 2). In this table, the trend toward expansion of the rights of autonomy is most clear in 1987 and this may be closely linked to the overall implementation of the contract system. After this, nearly all planning rights for everyday operations and management were controlled by enterprises.

**Table 2. Degree of Participation in the Various Types of Plans by Sample Enterprises (as a percentage of total number of enterprises) (N = 403)**

Plan type	1980	1983	1984	1985	1986	1987	1988
Output value	52.9	57.1	62.3	71.2	78.7	91.1	98.6
Output volume	53.1	57.1	62.5	71.7	79.4	91.3	98.3
Product types	53.3	57.8	63.5	72.5	80.9	91.6	98.3
Technology	55.6	59.6	64.5	73.9	81.4	92.3	98.5
Rate of advance	55.1	58.3	63.5	73.7	81.1	91.6	98.3

### 2. There Is No Clear Interrelationship Between the Distribution of the Rights of Autonomy and the Scale of the Various Enterprises

By conducting sectional data analysis of the distribution of rights of autonomy, we discovered that, making calculations with the industrial gross output value index (at 1980 unchanging prices) as the scale classification indicator, there was only a very weak link between the degree of an enterprise's rights of autonomy and the scale of the enterprise. It could even be said that there was basically no relationship between the two, with  $R_1^2 = 0.0163$  and  $R_2^2 = 0.0003$ .<sup>3</sup> If we take 1985 as the line dividing the Chinese enterprise reforms into an early and a latter stage, then there is a difference in the interrelationship between the distribution of rights of autonomy and enterprise scale. In the latter stage, there seems to have

been a more obvious expansion of the rights of autonomy of smaller enterprises. However, overall, the characteristics of the distribution of enterprises' rights of autonomy are not the same as people's general impression, which is usually that "large enterprises are managed extremely tightly and small enterprises are given much more flexibility." Among enterprises of different scales, there was no obvious imbalance in the reforms involving expansion of the rights of autonomy.

### 3. There Is No Interrelationship Between the Distribution of the Rights of Autonomy and the Market Conditions of Enterprises

Seen from the sample enterprises, there exists an imbalance in the distribution and development trend of rights

of autonomy between different industries. This is perhaps actually indicative of the fact that the pace of reform is different in different industries. However, as the industrial structure cannot really reflect the actual market conditions of the enterprises, it is very difficult to say that the imbalance in the distribution of rights of autonomy is given rise to by the differences in market conditions. Thus, we used the Kornai index ( $Z = \text{reserve funds}/\text{finished product funds}$ ) to delineate the market structure and then carried out an analysis of the interrelationship between it and the rights of autonomy. We discovered that there seemed to be no relationship between the distribution of rights of autonomy and the market structure, with  $R_1^2 = 0.002$  and  $R_2^2 = 0.013$ .<sup>4</sup> This seems to show that the expansion of enterprises' rights of autonomy does not have market structure conditions as a basic referent determinant.

#### 4. The Expansion of Rights of Autonomy Has Not Induced an Obvious Improvement in Economic Efficiency

We used the Cobb-Douglas production function to calculate a comprehensive productivity for production elements in enterprises (E). During the course of the reforms by which the rights of autonomy of enterprises were being expanded, there was no obvious improvement in their productivity. On the contrary, during the fluctuations, there was a slow decline and, in 1984, a figure of  $E = -0.46$  was experienced. In 1985, there was a recovery, but in 1987 there was a further fall, with  $E = -0.22$ . Economic efficiency calculated through the use of gross output value, net output value, profits and other routine indicators, also showed a similar trend (see Figure 1).

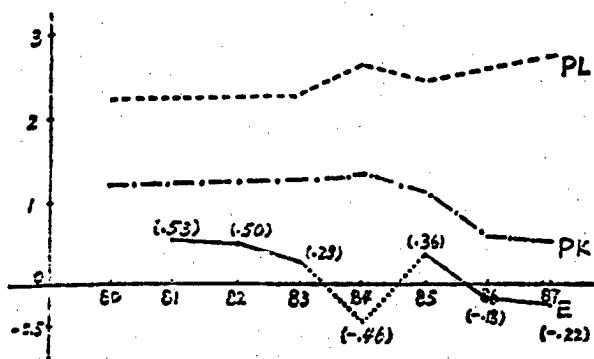


Figure 1. Changes in the comprehensive productivity of production elements (E), labor productivity (PL), and capital productivity of sample enterprises.

Note: See Appendix for method of calculating comprehensive productivity of production elements.

Further, through a classified analysis of sectional data, it was discovered that in that group of enterprises where composite rights of autonomy were higher than the average, the comprehensive element productivity had long remained in a negative situation, but had always

maintained a gentle upward trend. In those enterprises where composite rights of autonomy were lower than the average, the comprehensive element productivity had seen extremely intense fluctuations, but overall had maintained the same pace as the overall sample (see Figure 2). If we assume that the overall sample reflects changes in the overall national economic situation, it can perhaps be said that the expansion of rights of autonomy is not sufficient to reverse a low-efficiency situation in the overall economy, but that it assists in strengthening enterprises' capacity to protect themselves from changes in the economic situation.

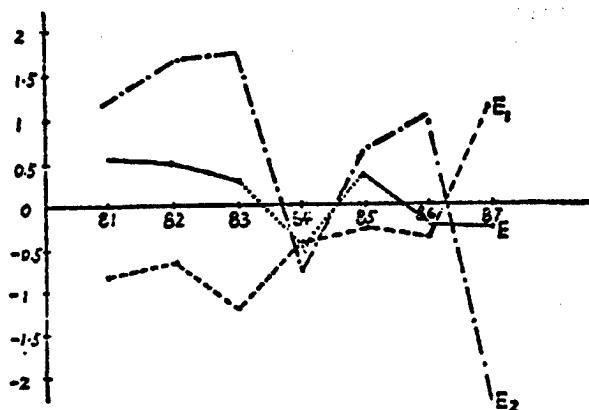


Figure 2. Changes in the Comprehensive Productivity of Production Elements for Enterprises With Differing Rights of Autonomy.

Note: E is for total sample; E<sub>1</sub> is for enterprises with large rights of autonomy; E<sub>2</sub> is for enterprises with small rights of autonomy.

#### 5. Concise Summary

Seen from the general experience of the reforms in socialist countries, considering the expansion of the right of autonomy of enterprises to be the historical and logical starting point in the reform of the state-owned enterprise system has been a standard phenomenon. This may have been due to the fact that, as far as the government is concerned, relaxing power of control is much easier than increasing the quality of the control. We see that people often proceed from their perceptual images and hold that there exist two imbalances in the handing down of the rights of autonomy: 1) the imbalance between enterprises of different scales; and 2) the imbalance between enterprises with different market conditions (operational situations). They consider that from the government's view, the former is for the convenience of management, while the latter results from financial considerations. However, from our analysis of data from 403 state-owned enterprises, we obtained no conclusions which can support the above-mentioned assumed images. It seems that the handing down of powers of autonomy is, to a large degree, a random

phenomenon. That is to say, there is no explicit basis for the expansion of enterprises' powers of autonomy.

Further, while the expansion of enterprises' rights of autonomy is a reform measure aimed at raising the low efficiency of the traditional enterprise model, in the process of expanding enterprises' rights of autonomy, not only has there been none of the obvious improvement of efficiency anticipated, but there has actually been a decline in the comprehensive productivity of production elements. Here, there are two factors which are difficult to eliminate and which obstruct our efforts to provide an economic explanation: 1) The influence of a deterioration in macroeconomic conditions is subject to restriction by the scale of the sample, and it is difficult to completely eliminate this factor. 2) The influence of the original productivity situation in the enterprises prior to the expansion of the rights of autonomy are subject to the restriction imposed by distance in time and it is difficult to completely eliminate this factor. Despite this, from the trends in the sample data we can still see that the changes in the economic efficiency of the state-owned enterprises is very far from what had been expected from the reforms expanding the rights of autonomy of enterprises. The deep causes of this economic phenomenon are worth thorough-going analysis.

### III. The Market Structure of State-Owned Enterprises

The market orientation of China's economic reforms has rapidly changed the market structure of enterprises. Here, on the basis of delineating the characteristics of the market structure, we will analyze the influence of this on the relationship between state-owned enterprises' rights of autonomy and their efficiency.

**Table 3. Changes in Market Structure I (Z average value)**

Year	1980	1983	1984	1985	1986	1987
Z value	6.249	6.541	5.523	4.799	5.025	5.234

From the table, we can see that the sellers' characteristics in the Chinese market are not extremely obvious. According to international conventions, in a buyers' market like the United States, the Kornai index is 0.94-1.16, while in a sellers' market like that of the Soviet Union, it is 9.2-12.3.<sup>5</sup> This index for our country is only 4.8-6.5. Further, if we assume that in sustained inflation, a market is a "non-Nash equilibrium market" economy,<sup>6</sup> then the market structure characteristics delineated by the Kornai index do not coincide with the Chinese inflation situation: In the accelerating inflation after 1985, the Kornai index shows a stable situation.

### 2. The Credit Use Index Increasingly Reflects Sellers' Market Characteristics

The credit use index delineates, from the angle of the enterprises' liabilities and creditor rights, the position of

In order to delineate the market structure, we have chosen three characteristic indices: I is the Kornai index ( $Z = \text{reserve funds}/\text{finished products funds}$ ); II is credit use index ( $CT = \text{money receivable for goods and payments in advance}/\text{money due for goods and receipts in advance}$ ); III is the price conditions index ( $P = \text{net increase in income through changes in prices of products produced}/\text{net increase in expenditure through changes in prices of input materials used}$ ). For convenience, in this article we will abbreviate these indices to market structures I, II and III.

#### 1. Market Disorder and the Limitations of the Kornai Index

The Kornai index distribution for the various sample enterprises was very irregular and we have grouped the enterprises into three groups in accordance with the ranges of:  $0 < Z < 2.0$ ;  $2.0 < Z < 15$ ; and  $15 < Z < 100$ . In the lowest group (comprising 35 percent of the total sample enterprises), the average value was 1.19, while in the highest group (comprising 11 percent), the average value was 30.31. This is a difference of over 25 times in their average value. This great dispersal is, to a large degree, a reflection of the high degree of disorder in the Chinese market. In the disordered market, a large number of noneconomic factors, which are difficult to control, affect the position of enterprises in the market. This means that in the market structure characteristics delineated by the Kornai index at a fixed time, there exist obvious errors. We have eliminated the  $Z < 0$  and  $Z > 100$  as noneffective samples and obtained the changes in the Kornai index as below (see Table 3).

the enterprises in their market contact relationships. When the market becomes disordered, the debt chain will naturally be extended, while the growth in the total volume of the delinquent debts will show the increasingly serious situation of disorder in the market faced by the enterprises. When the growth in creditor rights exceeds growth in liabilities, it shows that the characteristics of a tilt toward a sellers' market are occurring in the market structure. Seen from the average value of the entirety of the sample enterprises, in 1987 the total volume of liabilities was 5.5414 million yuan, an increase of 3.4 times over 1980. At the same time, the credit use index rose from 0.34 in 1980 to 0.57 in 1987 (see Table 4).<sup>7</sup> It was only in 1985 when the national economy saw overheated growth that there was a minor decline. In the other years, there was a sustained rise. This confirms, in an overall way, the sellers' market characteristics and the sellers' position of enterprises.

**Table 4. Changes in the Market Structure II (CT average value)**

Year	1980	1983	1984	1985	1986	1987
CT average value	0.34	0.47	0.46	0.41	0.57	0.57

### 3. The Price Conditions Index Further Supports the Seller Characteristics of the Market Structure

In order to consider the influence of the factor of inflation, we need to also draw in the pricing condition index. This index delineates the market structure characteristics from

the angle of the influence of changes in the prices of input materials and of the products produced. That is, it considers the market structure characteristics from the position of the enterprise in terms of price relations.<sup>8</sup> Seen from the entirety of the sample enterprises, the price conditions index basically saw a situation of sustained growth (see Table 5).

**Table 5. Changes in Market Structure III (P average value)**

Year	1980	1983	1984	1985	1986	1987
P average value	0.193	0.200	0.398	0.560	0.546	0.746

This shows that the enterprises could obtain profits from continued price rises. Thus, even drawing in the factor of inflation, not only is there no change in the sellers' characteristics of the market structure, but these characteristics are more fully verified.

### 4. Market Structure Differences Have an Obvious Effect on Enterprise Efficiency

This quantified delineation of the market structure allows us to analyze the interrelationship between the market structure and its efficiency. We differentiated market structure I and market structure II sellers' market-type and buyers' market-type enterprises, and then conducted comparative research into the efficiency of the two types of enterprises. We discovered that in the seller-type group of enterprises, the fluctuations in efficiency seemed to be more obvious. This may very well be due to the fact that the macroeconomic conditions have a greater effect on the market conditions of these sort of enterprises. That is to say, during a period of economic expansion, the efficiency of seller-type enterprises was lower, while in a tight economic situation, their efficiency was a little higher. The efficiency of the buyer-type enterprises seems to have seen opposite changes to those experienced by the seller-type enterprises.<sup>9</sup>

In brief, apart from in 1985 when macroeconomic tightening gave rise to fluctuations, in market structure II, the efficiency of seller-type enterprises was lower than that of buyer-type enterprises. In market structure III, the efficiency of seller-type enterprises was higher than that of buyer-type enterprises. This seems to show that market conditions have the following effect on enterprises' efficiency: beneficial financial settling conditions can raise the economic efficiency of enterprises, while poor market price parity conditions can likewise increase enterprises' efficiency.

### 5. Changes in the Relationship Between Rights of Autonomy and Efficiency Under the Two Different Market Structures

A further thing which needs to be considered is whether or not the relationship between rights of autonomy and efficiency is subject to the influence of differences in the market structure. On the basis of alternate classifications, we divided market structure influence on enterprises into four areas: 1) Enterprises in a seller-type market structure and having great rights of autonomy ( $A^1$ ); 2) enterprises in a seller-type market structure and having small rights of autonomy ( $A^2$ ); 3) enterprises in a buyer-type market structure and having great rights of autonomy ( $A^3$ ); 4) enterprises in a buyer-type market structure and having small rights of autonomy ( $A^4$ ).

**Table 6. The Relationship Between Rights of Autonomy and Efficiency Under Market Structure II**

			1983-1984	1984-1985	1985-1986	1986-1987
$A^1$	CT>1,	RT>30%	-0.352	-0.308	0.868	-3.886
$A^2$		RT<30%	-0.545	0.840	-1.374	-2.104
$A^3$	CT<1,	RT>30%	0.870	-1.250	-5.662	-0.313
$A^4$		RT<30%	0.780	-0.537	1.600	1.532

**Table 7. The Relationship Between Rights of Autonomy and Efficiency Under Market Structure III**

			1983-1984	1984-1985	1985-1986	1986-1987
$A^1$	P>0.2,	RT30%	-0.177	4.631	-4.935	-2.182
$A^2$		RT<30%	-1.600	-1.000	-2.660	-2.270
$A^3$	P<0,	RT30%	-0.320	-0.038	-0.740	-4.259
$A^4$		RT<30%	-0.314	-0.624	-0.660	-4.420

After drawing in the market structure, in the relationship between rights of autonomy and efficiency there appears a complex situation of various combinations (see Tables 6 and 7). From these we can see the following three points:

(1) The influence of different combinations of rights of autonomy, market structure and efficiency can undergo time-sequence changes. We carried out alternate classification of enterprises' retained profit rates, credit use index and price conditions index and thereby calculated a comprehensive productivity of production elements. We then compared these at the four points in time of 1983/84, 1984/85, 1985/86 and 1986/87. A completely stable efficiency change trend did not exist at any of these points in time. This to a great degree was closely linked to the great disorder in the overall economy.

(2) Seen from the basic trends, in market structure II, the efficiency of the group of buyer-type enterprises ( $CT < 1$ ) with large rights of autonomy was lower than the group with small rights of autonomy. The effects which the amount of rights of autonomy enjoyed by seller-type enterprises ( $CT > 1$ ) had on the efficiency of these enterprises was very unclear. In market structure III, the efficiency of the group of seller-type enterprises ( $P > 0.2$ ) with large rights of autonomy, was higher than that of the group with small rights of autonomy. The effect which the amount of rights of autonomy enjoyed by the buyer-type enterprises ( $P < 0$ ) had on the efficiency of these enterprises was very unclear.

(3) Seen from the basic trends, in the group of enterprises with large rights of autonomy, the efficiency of enterprises was directly related to the pricing conditions, while in the group of enterprises with small rights of autonomy, there was an inverse relationship between pricing conditions and enterprise efficiency. In the group of enterprises with large rights of autonomy, the influence of credit conditions on efficiency was not clear, while in the group of enterprises with small rights of autonomy, the more the credit conditions moved toward the seller-type conditions, the lower the efficiency of the enterprises.

#### 6. A Summary of the Effects of Market Factors

If we sum up the results of analyzing the effects of the two types of market structure, we can say that the reforms which have involved "random handing down of power" have meant that the influence of market conditions has increased and, because the market structure in which enterprises are located is different, there exist differences in the relationship between rights of autonomy and efficiency. However, contrary to what people think, the only general situation in which enterprise efficiency is raised by the expansion of rights of autonomy is one where price conditions have placed enterprises in a buyers' position. Under other market conditions, the expansion of the rights of autonomy may lead to a decline in efficiency or produce completely unpredictable results. This shows that the enterprises

which are given rights of autonomy do not effectively utilize market conditions to increase their enterprise's efficiency, but prefer to use pricing measures to seek profits.

#### 7. Expanded Analysis

As a supplement to the analysis of the effects of the price structures of input materials and output products, we want to further draw in an analysis of the structure of the production element market. We have assumed that bank credit has not as yet formed a distribution mechanism based on the market and thus there is no essential difference between it and government allocations. We have looked at the proportions which central government allocations, local government allocations, and bank credit constituted in enterprise investment sources and conducted regressive analysis of this in relation to enterprises' rates of profit on funds. We find that there was only a slight inverse relationship between the two, with the interrelationship coefficient  $R^2$  being less than -0.1. In this, the inverse interrelationship of government allocations strengthened over time. In the latter period, bank credit saw a slight trend toward a direct relationship. However, the interrelationship coefficient  $R^2$  was only 0.05.

We also further analyzed the profit orientation of state funds. We took the proportion which state funds constituted in enterprises' investment sources as a classification indicator and divided the enterprises into a high group and a low group. Through comparative analysis, we discovered that the annual profit rate on funds for enterprises with a low proportion of state funds was always higher than that in enterprises with a high proportion of state funds. This seems to show that state funds investment tends to support the poor and the weak, which means that state enterprise funds supply still maintains strong policy-supply characteristics. This has two basic significances: First, the distribution of capital is basically not subject to regulation through market mechanism. Second, low-efficiency enterprises can obtain benefits in a situation where funds are not regulated by the market. Thus, there exist disparities in the capital deployment patterns in different spheres. Spheres subject to the influences of traditional patterns are not subject to regulation through market profit principles, while in spheres where enterprises raise their own funds, regulation by profit principles is a little stronger.

We also conducted a comparative analysis of the distribution of surplus personnel, wage output rates and average wages of staff and workers in the sample enterprises and found that enterprise efficiency was markedly reflected in the employment market structure. However, this reflection did not have an obvious effect on the income levels of staff and workers. In the sample enterprises, the wage profit rate of enterprises which had surplus personnel was 85 percent, while in enterprises which did not have surplus personnel, the enterprise wage profit rate was 120 percent. However, the average

wage levels of staff and workers in these two groups of enterprises were basically the same. This appears to tell us that there is not a strong linkage between the level of wages and the labor element market structure and that the labor deployment situation does not directly affect the growth of the wages of the staff and workers of the enterprises.

#### **8. Concise Conclusion**

Through the reforms to expand enterprises' rights of autonomy, the influence of the market has markedly strengthened. However, the partially formed market relationships still do not have sufficient restraining power over enterprise activities and are insufficient to guide enterprises' resource deployment. Further, the systems intervention by the government in the production elements market still obstructs, to a very great degree, the regulatory function of the market mechanism.

### **IV. The Incentive System and State-Owned Enterprises**

Enterprise incentive systems are the basic internal factor determining the operational efficiency of an enterprise. Here, on the basis of analyzing the differences and similarities between incentive structure, we will examine changes in the efficiency parameters. To do this, we divided enterprise incentive structures into money incentives and nonmoney incentives. We further divided money incentives into staff and workers' wages and bonuses, and administrative and technical management personnel's wages and bonuses. The nonmoney incentives were divided into rewards and participatory incentives. Then from different sides, we separately summed up the changes in incentive structure characteristics through the reforms.

#### **1. Growth in the Total Volume of Income and Changes in the Incentive Structure**

Seen from the entirety of the sample enterprises, the growth of the volume of monetary incentives was extremely marked. This was not only manifested in absolute speed of growth, but also in relative speed of growth. From 1980 to 1987, the average wages of staff and workers of sample enterprises rose 17.1 percent annually, 3.93 percentage points more than the annual increase in net output value and 6.37 percentage points higher than the rise in labor productivity. This shows that the percentage constituted by the incomes of staff and workers in the net output value of enterprises has continually expanded, and also shows that in the process by which money incentives have been continually strengthened, there has been no effective restraining mechanism.

In the course of growth of the total volume of money incentives, changes occurred in the incentive structure and the proportions of bonuses rose from an average value of 0.13 percent in 1980 to an average value of 0.22

in 1987. This means that the transferable portion of the increase in wages had increased and this was an important factor in promoting the growth of the total wages of staff and workers. From the trends observed, the reaction of bonuses to fluctuations in the economic climate is much stronger than that of wages. This shows that post-reform wage mechanism retained the characteristics of the traditional system.

#### **2. Changes in the Differentials in the Money Incentives Structure Have Not Been Beneficial to Management, Engineering and Technical Personnel**

In a situation where there was growth in the total volume of money incentives, there appeared a trend whereby there was irregular reduction in the differentials between wage levels for different types of staff and workers. The change with the most effect was that whereby the relative level of management personnel wages had seen a decline. This was closely related to the increase in bonuses and other flexible elements in the wage structure. It is only since 1987, following the overall implementation of the contract system, and the growth in nonfixed elements in managers' income, that a limited increase in the differential has again emerged. Whether the nonuniformity of the strength of the money incentives for different types of personnel will affect the effects of the incentives and whether or not they will replace nonmoney incentives, are questions which need further investigation and testing.

#### **3. The Nonmoney Incentives Structure Is Tending Toward Participation in Decisionmaking on Matters Involving Individual Interests**

The nonmoney incentives structure should include at least rewards and participatory aspects. In order to simplify this, we have not analyzed the reward structure. Seen from the sample enterprises, there exists an imbalance in the structure of participation by staff and workers. The majority of the participation is centralized in management of matters directly related to individual interests. There is only quite weak participation in management decisions which manifest group interest. Of the 403 sample enterprises, 28.8 percent had staff and workers participating in wage and bonus distribution decisionmaking, 27 percent had staff and workers participating in housing allocation decisionmaking, and 11.7 percent had staff and workers participating in the appointment and dismissal of management personnel. However, there was little participation by staff and workers in deciding the use of retained profits, the development of new projects or the orientation of investment. In the staff and workers' incentives structure, the trend toward staff and workers participating in decisionmaking in matters of individual interests and especially decisionmaking on income matters, has to a large degree meant that the demand motivation of the many levels and diverse types of staff and workers has been limited to a quite narrow sphere.

**4. There Is a Clear Direct Relationship Between the Size of Bonus Ratios and Labor Productivity<sup>10</sup>**

Seen from the overall sample, the dispersal coefficient of the bonus ratio rose from 0.070 in 1980 to 0.105 in 1987. This shows that there was a trend toward increasing

disparity between the ratio of bonuses to wages in different enterprises. We took the average value as the dividing line and divided the enterprises into two categories based on whether their bonus ratios were higher or lower than the average value, and then considered the effects on efficiency (see Table 8).

**Table 8. A Comparison of Efficiency of Enterprises Grouped by Bonus Ratios (BR)**

Year	BR Average value					
	$\alpha$	$\beta$	$MPR_L$	$P_L$	DOPA	PAF
1983	0.6104	0.2916	0.0835	0.1016	-0.0181	1.33
1984	0.5969	0.2929	0.0888	0.1221	-0.0333	
1985	0.5519	0.2859	0.0897	0.1366	-0.0469	
1986	0.6844	0.1551	0.0464	0.1603	-0.1139	
1987	0.8030	0.0175	0.0055	0.1727	-0.1672	
BR Average value						
1983	0.7806	0.1998	0.2148	0.0997	0.1151	-2.52
1984	0.8426	0.1851	0.2072	0.1140	0.0932	
1985	0.7000	0.3637	0.5017	0.1464	0.3553	
1986	0.6194	0.4725	0.7211	0.1720	0.5491	
1987	0.7420	0.3379	0.5737	0.1952	0.3785	

Note:  $\alpha$  is the capital outlay elasticity coefficient;  $\beta$  is the labor productivity elasticity coefficient;  $MPR_L$  is the marginal productivity of labor;  $P_L$  is the price of labor (wage rates); PAF is the comprehensive productivity of production elements; DOPA =  $MPR_L - P_L$ .

From the table, we can see that the influence of the disparities on bonus ratios is quite marked. We postulate that, when an enterprise seeks maximization of profits, the optimum deployment of labor resources is one in which marginal productivity of labor is equal to labor costs. That is,  $MPR_L = P_L$ . Supposing  $DOP = MPR_L - P_L$ , when  $DOP < 0$ , labor input is excessive. When  $DOP > 0$ , labor input is insufficient, that is, additional labor input could provide more output. We can further see that, when the bonus ratio is high, the relative productivity of an enterprise's labor is high, and in the technical structure of production, stress is on the labor input. Meanwhile, in enterprises in which the bonus ratio is low, capital productivity is high and, in the technical structure of production, stress is placed on capital input. Seen from the actual use efficiency of resources, enterprises with a relatively low bonus ratio have a percentage of their labor which is noneffective in terms of output. However, if we look laterally, in the comprehensive productivity of production elements, the efficiency of enterprises with high bonus ratios is lower than that of enterprises with high bonus ratios. Seen from the dynamic angle, the efficiency of the former sees a gradual increase, while that of the latter sees a gradual decrease. This shows that the incentive role of bonuses plays a stimulatory role on efficiency. As to the comparative

disparities between the resource deployment results and comprehensive productivity of production elements of the two types of enterprises, these may well be connected with the fact that at the current stage of our country's economic development, the major avenue for achieving technological progress is the raising of capital equipment ratios.

**5. The Rate of Growth in Per Capita Wages Has No Direct Incentive Effect on Enterprise Efficiency**

Seen from the overall sample, the rate of growth in per capita wage rates shows no relationship with the comprehensive productivity of production elements. We again took the average value as the dividing line and divided the enterprises into two groups, one with wage rate increases higher than the average value and one group with wage rate increases lower than the average value. From our subsequent examination, we discovered that there was no clear differences in the resource deployment structures of the two different types of enterprise, with both groups tending toward the adding of capital. Seen from the deployment situation, in enterprises with high rates of wage increase, the relative efficiency of labor was a little better. However, the comprehensive productivity of production elements was relatively low (see Table 9).

**Table 9. Comparison of Efficiency of Enterprises Grouped According to Rates of Increase in Per Capita Wages (AW)<sup>11</sup>**

Year	AW equal to or less than average value					
	$\alpha$	$\beta$	$MPR_L$	$P_L$	DOPA	PAF
1985	0.9510	-0.0598	-0.0366	0.1414	-0.1780	0.086
1986	0.9172	-0.0125	-0.0066	0.1608	-0.1674	1.54

**Table 9. Comparison of Efficiency of Enterprises Grouped According to Rates of Increase in Per Capita Wages (AW)<sup>1</sup> (Continued)**

Year	AW equal to or less than average value					
	$\alpha$	$\beta$	MPRL	P <sub>L</sub>	DOPA	PAF
1987	1.0283	-0.1287	-0.0703	0.1735	-0.2438	-2.05
AW Average value						
1985	0.7098	0.4193	0.8632	0.1222	0.7400	-0.904
1986	0.5149	0.6517	1.4774	0.1535	1.3239	-0.612
1987	0.8513	0.6157	0.7822	0.1861	0.5961	-1.15

Symbols used are as in Table 8.

This shows that, while the rate of growth in wages has an incentive effect on labor efficiency, it cannot raise the overall efficiency of enterprises. In fact, from the trends, it seems that the efficiency of enterprises with high growth in wage rates sees a clear decline.

#### 6. In the Relationship Between Rights of Autonomy and Efficiency, the Effects of the Two Types of Money Incentive Systems Are Completely Opposite

In looking at the relationship between rights of autonomy and efficiency, by drawing in an analysis of the incentive structures, we discovered an extremely interesting phenomenon. Under bonus incentives, there were direct changes between rights of autonomy and efficiency, while under wage incentives, there were

inverse changes between the two. In the group of enterprises with low bonus ratios, there was no direct relationship between the size of an enterprise's rights of autonomy and the enterprise's resource deployment situation or deployment results. However, in enterprises with quite high bonus ratios, there was a quite clear increase in the influence of rights of autonomy on resource deployment. In the enterprises with small rights of autonomy, there existed the trends of excessive labor input and declining marginal productivity of labor, while in enterprises with large rights of autonomy there was a tendency for the marginal productivity of labor to rise. This is reflected in the comprehensive productivity of production elements, where there is the same sort of situation of change (see Table 10).

**Table 10. Influence of Size of Bonus Ratios on the Relationship Between Rights of Autonomy and Efficiency**

Year	BR equal to or less than average value			S equal to or less than average value		
	$\alpha$	$\beta$	MPRL	P <sub>L</sub>	DOPA	PAF
1983	0.2518	0.9887	0.4563	0.0882	0.3681	
1984	0.3111	0.7619	0.3899	0.1011	0.2888	1.87
1985	0.5992	0.2413	0.1418	0.1126	0.0292	3.06
1986	0.6423	0.4494	0.2690	0.1376	0.1314	-1.41
1987	0.9987	-0.2930	-0.1752	0.1526	-0.3278	5.85
BR equal to or less than average value			S Average value			
1983	0.2302	0.9052	0.3615	0.0809	0.2806	
1984	0.0668	1.1432	0.5176	0.0980	0.4196	-2.35
1985	0.3104	0.8800	0.4482	0.1142	0.3340	1.71
1986	0.5623	0.4649	0.2307	0.1312	0.0995	1.71
1987	0.8243	0.2748	0.1516	0.1434	0.0082	-2.97
BR Average value			S equal to or less than average value			
Year	$\alpha$	$\beta$	NPR <sub>L</sub>	P <sub>L</sub>	DOPA	PAF
1983	0.9879	-0.2368	-0.2566	0.1012	-0.3578	
1984	1.0530	-0.1049	-0.2371	0.1230	-0.3601	-4.36
1985	1.3073	-0.3272	-0.4638	0.1401	-0.6039	-1.75
1986	1.2122	-0.3402	-0.5260	0.1676	-0.6936	-0.43
1987	1.2100	-0.2847	-0.4965	0.1919	-0.6884	-3.13
BR Average value			S Average value			
1983	0.6925	0.2834	0.2038	0.0973	0.1065	
1984	0.6541	0.3874	0.3302	0.1218	0.2084	-2.02
1985	0.7452	0.3033	0.3023	0.1603	0.1415	-0.18

**Table 10. Influence of Size of Bonus Ratios on the Relationship Between Rights of Autonomy and Efficiency (Continued)**

Year	BR equal to or less than average value			S equal to or less than average value		
	$\alpha$	$\beta$	MPRL	PL	DOPA	PAF
1986	0.7636	0.2901	0.3306	0.1818	0.1488	-0.59
1987	0.6224	0.4247	0.5298	0.2034	0.3264	1.91

This shows that the expansion of enterprises' rights of autonomy could create the necessary conditions for better utilizing the elastic incentive form constituted by bonuses to stimulate a raising of efficiency.

The effect of wage growth rates on the relationship between rights of autonomy and efficiency was completely opposite. In enterprises with high wage growth rates, those enterprises with large rights of autonomy had a lower use-efficiency of labor than those enterprises with small rights of autonomy. In the enterprises with low wage growth rates, the marginal productivity of labor in enterprises with small rights of autonomy saw a declining trend and this had a negative effect on overall efficiency. The labor-use situation in enterprises with large rights of autonomy was however good and this produced a positive influence on overall efficiency. Seen overall, it may be said that, following an increase in rights of autonomy, the incentive effects of wage growth rates saw a decline.

#### 7. A Simple Summary of the Effects of Money Incentives

We postulate that changes in the incentives system primarily influence the efficiency of the enterprise through encouraging the laborers. Thus, they are closely related to the relative productivity of labor in two senses. The first is in the preference for utilizing labor and the second is in the actual use benefits of labor. The former reflects the deployment situation, while the latter manifests use efficiency. In theory, the price of labor can gradually approach marginal productivity and thereby produce a positive effect on the comprehensive productivity of production elements. In this respect, the incentive effect of that elastic income which maintains various links with enterprise efficiency—that is, of bonuses—seems a little more obvious. However, this sort of incentives system does make more demands on the systems environment external to the enterprise.

#### 8. Different Participatory Structures Have an Obvious Effect on the Relationship Between Rights of Autonomy and Efficiency

We divided participatory structures into two types. The first type involved participation in matters which related to group interests, including the appointment and dismissal of enterprise leaders, the employment of new workers, the dismissal of workers, the development of new products, investment decisionmaking, the use of the enterprise's retained profits and the formulation of production and financial plans for the enterprise. The other

type involved participation in matters which were related to individual interests, including the fixing of wages and bonuses, the allocation of housing and so on. Then, on the basis of choice precedence, we divided the enterprises into two types—those enterprises which gave precedence to participation in decisionmaking relating to group interests and those which gave precedence to participation in decisionmaking related to individual interests. We then examined them separately and discovered that in these two types of enterprises, the efficiency of those with large rights of autonomy was relatively better. However, comparatively speaking, the interrelationship between rights of autonomy and efficiency was more obvious in enterprises which stressed participation in decisionmaking on matters related to group interests, and the greater the rights of autonomy enjoyed, the higher the efficiency. This seems to show that participation in enterprise decisionmaking must be linked with a process of expansion of rights of autonomy if it is to effectively play a role in encouraging the staff and workers. In this general situation, the efficiency of enterprises which stressed participation in decisionmaking involving group interests was relatively higher. This was to a large degree, closely related to the strengthening of enterprise collective interest incentives. This is because the optimal deployment of resources is even more closely related to the enterprise group and is not something which the individual can handle.

#### 9. Expanded Analysis

We were not only concerned with the questions of enterprises' internal incentives structures and incentives efficiency. We were also concerned with the questions of the efficiency of incentives systems between enterprises. In this respect, the first issue which is encountered is the distribution relationship between government and enterprises, that is, the role played by the celebrated "soft budgetary restraints." In order to investigate the changing situation of "soft budgetary restraints" in the process of the breaking down of the classical system, we conducted two analyses. The first looked at the differences between enterprises' actual retained profit rates and the government-stipulated retained profit rates. The second looked at the differences between the actual amount of enterprise profits expended and the amount of profits retained. We discovered that in these two areas, not only did the soft budgetary restraints phenomena of excess retention and excess expenditure still exist, but that they became increasingly serious (see Table 11).

**Table 11. Limits of Retained Profits and Limits of Profit Expenditure**

Year	1980	1983	1984	1985	1986	1987
DR	1.46	1.69	1.42	1.96	1.34	2.18
ER	1.28	1.42	2.01	1.38	1.87	2.02

Note: DR = enterprises' actual profit retention rate/government stipulated profit retention rate; ER = amount of enterprises' profit expended/volume of profit retained by enterprise.

Further, we used the degree of softness in the budgetary restraints as a classification indicator, divided the enterprises into two groups and then compared the economic efficiency of the two groups. We discovered that the enterprises with an actual rate of retained profits at least 50 percent higher than the government-stipulated retained profit rates had quite high cost-profit rates in 1984/85, but quite low cost-profit rates in 1986/87. Meanwhile, in all those enterprises which had profit expenditure volumes over 30 percent in excess of the amount of profit retention, the cost-profit rates were quite low. An analysis of the results shows that state-owned enterprises which had financial autonomy rights saw a fall in efficiency because of insufficient budgetary restraints.

#### 10. Concise Summary

Strengthening money incentives is an important principle in the reform of state-owned enterprises. As far as raising labor efficiency is concerned, the result of adopting the method of increasing bonuses is better than the method of increasing per capita wages. However, enterprise efficiency is determined by the overall situation of resource deployment and although increasing bonuses can stimulate an improvement in labor efficiency, it cannot stimulate an improvement in the overall efficiency of an enterprise. The stimulatory efficiency of bonuses relies on the expansion of enterprise rights of autonomy, but the expansion of the rights of autonomy can have a negative effect on the stimulatory efficiency of wages. The expansion of rights of autonomy, if combined with the strengthening of the participation of the staff and workers of the enterprise in decisionmaking on matters which affect group interests, can have a positive effect on efficiency. However, if the problem of "soft budgetary restraints" is not resolved, it will have a negative effect on an enterprise's efficiency. If this basic problem is not resolved, then it appears that it will not be possible to bring into play the effectiveness of incentive systems in state-owned enterprises.

#### V. Overall Analysis: Problems and Coordination in the Building of Systems

From the foregoing analysis, we can conclude that there are close relationships between rights of autonomy and efficiency, between market structure and efficiency and between incentives structures and efficiency. However, the relationship between these economic variables is not a linear one and there is no unitary relationship. Not only are the relationships determined by the alternating combinations of the different production elements, but also determined by different periods of time. Thus, we

do not intend and it would indeed be very difficult, to provide a simple conclusion on the relationship between these different variables. Here, after having exposed the systematic factors in the relationship between rights of autonomy and efficiency under different market situations and different incentive structures, we will try to explore the problems which occur in the building of systems during the reforms.

#### 1. Imbalance Between the Expansion of Enterprises' Rights of Autonomy and the Building of Market Systems

If a market structure can, to a large degree, explain the reasons for changes in efficiency, in the process of expanding enterprises' rights of autonomy we need to consider the level of development and the structural situation of the market system. In fact, in the early part of the reforms to expand the rights of autonomy of enterprises, in a situation where the traditional economic order had not been broken down, there was certainly an upward trend in the economic efficiency of enterprises. However, after 1985, in a situation where the market was extremely disordered, the expansion of the rights of autonomy produced a negative effect on enterprise efficiency. Seen from the structural level, the more the market moved toward a sellers' market, the more obvious became the disintegrating effect which the expansion of the rights of autonomy had on the market order. Naturally, this was reflected in a negative relationship on the efficiency level. Thus, a phenomenon of imbalance existed between the reforms to expand enterprise rights of autonomy and the establishment of market systems. The economic influence of this has been that, in the markets, there has not been any effective restraint on the actions of enterprises subsequent to the handing down of power.

#### 2. The Imbalance Between Expansion of Enterprises' Rights of Autonomy and the Establishment of Incentives Systems

Although the capacity of the incentives structure to explain the changes in the relationship between the rights of autonomy and efficiency is inferior to that of the market structure, the interrelationship between the incentives structure itself and efficiency should not be overlooked. During the reforms, the monetization of the incentives structure strengthened the role of the incentives system. Thus, all enterprises where money incentives were strong showed a quite high efficiency regardless of whether their rights of autonomy were large or small. However, the incentives structure itself showed increasing symptoms of imbalance: First, the role of bonus incentives was counteracted by the negative role

of the growth in total wages; second, the role of the volume of money incentives was counteracted by the softness of the distribution restraints and egalitarianism; third, the role of money incentives themselves was counteracted by the deviations occurring in nonmoney incentives. It was probably these changes which caused the U-turn in efficiency changes during the course of the 10 years of reform. Thus, the imbalance between the reforms to expand the rights of autonomy of enterprises and the building of incentive systems has been concretely manifested as a loss of balance in the incentives structure itself, thereby destroying the beneficial base on which the rights of autonomy could play a role.

### 3. Overall Conclusion: Correcting the Imbalance and Strengthening the Building of the Integral Nature of Systems

It is probable that it was the lack of coordination between rights and interests and regulations, and the lack of symmetry between incentives and restraints that resulted in China's reforms to hand down decision-making power not achieving the anticipated results. The chaotic market structure meant that externally enterprises lacked a mechanism of competition which could effectively regulate enterprises' activities. Meanwhile, the disordered incentives structure meant that, within enterprises, a systems base which would restrain enterprises' activities and stimulate enterprises to seek technological progress, was lacking. As a result, the emergence of illegal and abusive use of rights of autonomy could not be avoided. Thus, the reforms to expand enterprises' rights of autonomy have actually destroyed the integral nature of the system, leading to a situation where neither the administrative regulatory measures nor the market regulation measures are able to play their due roles. Thus, the task of future reform is: achieving balanced development and, on this new base, reconstructing the integral nature of the system.

#### Appendix: On the Definition and Calculation of Efficiency

Except where otherwise stipulated, the efficiency indicator adopted in this article is the comprehensive productivity of production elements (E). The E value is obtained through adopting the Cobb-Douglas production function model, by summing [NI HE 2362 0678] the sectional data, calculating parameters and then converting. The specific mathematical formula is:

$$\ln Y = \alpha \ln A + \alpha \ln K + \beta \ln L$$

$E = \Delta A/A / \Delta Y/Y$  is the formula for calculating an approximate comprehensive productivity for production elements.

In these formulae,  $Y$  = net output value at current prices;  $K$  = original value of fixed assets + fixed volume of floating funds;  $L$  = average number of staff and workers at the enterprise over the year.

We separately used gross output value, original value of fixed capital, total volume of floating funds and the

wages of staff and workers to do overall probability combination trial calculations. The results of these were all inferior to the form we have chosen. The inferiority was manifested as a decline in the interrelationship coefficient and an irrational distribution of  $\alpha$ .

When calculating the comprehensive productivity of production elements, we used sectional regression to replace time regression. The reason was that the time period was too short and the difficulties of price readjustment could influence calculations. We separately used two-year, three-year and six-year mixed alignment data to estimate parameters and discovered that there were no clear changes among them. For calculation convenience, we selected the method of annual sectional data regression. The data for 1981 and 1982 were obtained by interpolation [NI HE 2362 0678] of the 1980 and 1983 data.

The results of using the post-screening method, variables and data calculations, after statistical verification, proved that the base is successful. In this, under the overall sample situation,  $R^2 > 0.65$ ,  $F > 360$  and  $T(\ln A) > T_0$  (5 percent). When the sample number dropped to 50, the overall rate of credibility [4844 0678 4999 4207 1653] was still maintained at above 5 percent.

When comparing E with the traditional indicators, such as profit rate on funds and labor productivity, we discovered that they had an extremely similar distribution and similar trends. Thus, when the tightness of levels caused us to have some doubts about the parameters calculated, we always used the traditional indicators as a basis for reference and recalculation. In this way, when we analyzed questions, we were able, to a great degree, to avoid errors in our assessments.

E includes the influence of the disparity in the relationship between prices of input materials and prices of output products, the influence of differences in the degree of capital intensity in different enterprises, and the effect of changes in technical quality. It also includes the effects of the unevenness of the sample distribution given rise to by the fact that the differences between industries and differences in scale were not deducted. The unusual situation of calculations giving absolute value of  $E > 1$  is related to this fact. Despite this, the trends reflected by the E value curve are basically unchanging.

#### Footnotes

1. This study is one of the phased results of the State Ownership Reform Research Group under the Economic Research Institute of the Chinese Academy of Social Sciences. This research was a cooperative project with Oxford University in the United Kingdom, and Michigan University and the University of California in the United States. During the course of the study, we received great assistance and support from the State Statistical Bureau, Hunan Province, Wuhan City, Zhenjiang City, Linan County and the government departments and structural reform committees of the cities in

which the sample enterprises were located. We also received financial assistance from the State Social Science Fund and the U.S. Ford Foundation. Deep gratitude is hereby expressed to all.

The sample distribution for this survey was as follows: 1) Total sample— $N = 403$ ; 2) Scale distribution—the number of large, medium-size and small enterprises was 161, 150 and 92, respectively; 3) Industry distribution—the fields involved totaled 39, and the enterprises were roughly divided into six major trades or industries; 4) Regional distribution—37 regions (or cities); 5) Ownership reform form distribution: (1) shareholding system  $N_1 = 6$ ; (2) contract system  $N_2 = 185$ ; (3) leasing system  $N_3 = 1$ ; (4) asset operation responsibility system  $N_4 = 28$ ; (5) factory director responsibility system  $N_5 = 150$ ; (6) Other  $N_6 = 6$ ; (7) invalid sample  $N_0 = 31$ .

2. The rights of autonomy involved in the sample enterprises included the degree to which production operations are subject to planning, the proportion of autonomous decisionmaking power the enterprises have in the various plans, the mechanism by which management and mid-level management personnel are appointed, the enterprises' right to employ labor, their right to dismiss labor, income distribution rights, the right to use retained profits, the right to invest funds and so on. The fact that we chose these two indicators to reflect enterprises' rights of autonomy does not mean that the other rights of autonomy in the survey are not important. It is simply for the purpose of more accurate quantitative analysis and for avoiding unnecessary difficulties in the handling of statistics. The two figures of 0.4 and 0.6 were obtained through the empirical survey.

3.  $R_1^2$  and  $R_2^2$  are respectively the coefficients of the interrelationships between gross industrial output value and M and RT in the same year.

4.  $R_1^2$  and  $R_2^2$  are respectively the coefficients of the interrelationship between Z and M or RT in the same year.

5. J. Kornai, "The Dual Reliance of State-Owned Enterprises" in JINGJI YANJIU, No 10, 1985.

6. Du Haiyan, et al., "The Actions of State-Owned Enterprises in the Current Inflation" in JINGJI YANJIU, No 2, 1989.

7. The rise in the credit use index shows that the speed of growth in creditor rights is faster than the growth in liabilities. This means that an enterprise's purchases of raw materials and sale of products is difficult. If an enterprise's advance receipts are small and due receipts large, it indicates that the enterprise is having difficulty selling its products. If an enterprise's due payments are small and its advance payments are large, it means that the enterprise is having difficulties in purchasing raw materials.

8. The price conditions index shows the degree of change in the relationship between the increase in the prices of

products of an enterprise and the increase in the price of its input materials. The higher this index, the greater an enterprise's income from price rises, as compared to its losses from price rises, brought about through changes in the prices of products and input materials. From 1980 to 1987, the sample enterprises had two types of price conditions: 1) Both input materials and products produced rose in price. 2) The input materials rose in price but the price of products produced fell in price. These two situations were found in over 95 percent of the sample.

9. Because of space limitations, we have had to omit many important and valuable data items and tables. Those readers who are interested will be able to find these in our subsequent reports which will be published later.

10. In order to clearly demarcate the effects of differences in the incentives structure on enterprise efficiency, we selected three types of classification indicators: 1) Bonuses as a ratio of total wages. We refer to this as BR; 2) growth rate in per capita wages. We refer to this as AW; 3) the structure of participation by staff and workers. This can reflect the structure and nature of nonmoney incentives. In order to not make the classifications too complex, when necessary we have reduced to a limited degree some classification indicators. Because of the direct relationship between the incentives structure and labor productivity, we have, in our analysis of efficiency, engaged in some breaking down of the figures. The aim of this is to achieve, from the resource deployment angle, a more specific delineation of the effects of the incentives structure.

## PROVINCIAL

### 1989 Tax, Price Inspection Ends in Anhui

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[By Shen Zhao (3088 6856)]

[Text] The 1989 general inspection on tax revenue, financial affairs, and commodity prices has by and large been completed Anhui. As of the end of February, discipline violations involving 428.72 million yuan had been revealed in the inspection, and 178.71 million yuan had been turned over to the treasury.

As can be seen from this general inspection, violations of state laws and regulations on financial and economic affairs are still widespread. Investigations conducted in key units reveal that discipline violations have occurred in as many as 63 percent of state-owned enterprises, administrative departments, and institutions, 64 percent of collective enterprises, and 30 percent of remaining units.

Analysis shows that the high percentage of units with discipline violations is attributable mainly to the following: Leaders of some enterprises and units have a

serious ideological problem of selfish departmentalism and egoism and a blunt sense of adhering to the legal system. Therefore, they have not followed regulations and laws that have already been established. In a few localities and departments, responsible persons have connived at or even shielded acts in violation of discipline. Economic supervisory and inspection departments have not strictly conducted their routine supervision and checks, especially in dealing with the problems revealed in the inspection. Due to their excessive leniency, law offenders and discipline violators have not been given due punishment. In addition, inconsistent and imperfect economic administrative laws and regulations is also one of the major reasons.

As pointed out by a responsible person of the provincial Office for the General Inspection of Tax Revenue, Financial Affairs, and Commodity Prices, all localities should, from now on, do the following in order to successfully conclude the 1989 general inspection: First, seriously investigate and liquidate small unauthorized banking facilities. Continued efforts should be made to mobilize various units to investigate themselves and report to the authorities concerned if they have found any such facilities in their own units. The masses should also be mobilized to inform against such facilities. Meanwhile, a special work force should be organized to conduct spot-checks. Second, pay attention to various tasks at the finishing stage of this general inspection. Efforts should be geared up to verify those discipline-violation cases that have not yet been ascertained. Serious cases in violation of laws and discipline should be made public and dealt with severely. Money involved in various discipline-violation cases should be transferred to appropriate accounts or sent to the treasury as necessary. Third, it is imperative to establish rules and regulations for rectifying problems and improving work. In coordination with the departments concerned, inspection offices should, within a certain period, sort, classify, analyze, and study the problems revealed in the inspection, and develop solutions so as to improve the work, perfect the rules and regulations, and plug all loopholes.

#### Causes of Enterprise Funds Shortages

90CE0054A Shanghai SHANGHAI JINGJI  
[SHANGHAI ECONOMY] in Chinese No 1, 30 Jan 90  
pp 30-32

[Article by Wang Yilin (3769 2011 5259), chief economist, Shanghai Broadcasting Equipment Factory: "Explanations for and Ways To Ameliorate the Shortage of Enterprise Floating Capital"]

[Text] The shortage of enterprise floating capital that we see today has become a serious problem hindering our production development. An urgent task for economic workers at large is to show how this shortage came about and to search for ways to ameliorate the problem.

#### Causes of the Shortages

On the demand side: 1) Production development. The overall value of our factory's production increased steadily at a rate of 48.1 percent on the average over the years 1983 to 1988. Similarly, our floating capital quota gradually increased at an average rate of 36.5 percent over the same years. 2) Adjustments in the product mix. In 1983 our factory began a test production of color televisions. Gradually, the total production value of color televisions had come to account for a larger percentage of our total television production, and by 1988 it had reached 45 percent. It is much more expensive to produce color televisions than it is to produce black and white televisions. Increased production of color televisions inevitably came to take up much more of our capital. 3) Higher prices of raw materials. Between 1983 and 1988 our factory enjoyed an average yearly increase of 45.7 percent in its sales revenues. However, the cost of raw materials rose an average of 46.8 percent for each of the same years. At the same time, the enterprise was forced to stockpile reserves due to skyrocketing prices and shortages of raw materials. Rising raw material prices and increased reserves together took up increased amounts of our capital. 4) We adopted the method of pre-paying for materials. The current common practice of pre-paying for production materials to be delivered by foreign trading companies and purchases of domestic materials that are in tight demand lead to much too much enterprise capital being used in material purchases. 5) Increased product exports. In 1987 our factory earned 135 percent more foreign exchange than it did in 1986. And in 1988 we earned almost 100 percent more than we did in 1987. However, export accounts come in slowly, and enterprise capital is tied up for long periods of time. The more foreign exchange we earn, the more our floating capital is tied up. 6) We have carried out a system of reserving a portion of our foreign exchange. A certain cost is paid by investing foreign exchange in production. With rising costs of redistributing foreign exchange, the enterprise that uses its foreign exchange has to pay more. If foreign exchange is spent on production at an early stage, then the enterprise has made an early advance of a large sum of money. 7) Increased expenses and rising costs. In the years 1983 to 1988, our factories' total expenses increased an average of 37.1 percent each year, the total cost of all of our products increased an average of 51.6 percent per year, and both of these figures represent much higher increases than those we saw in sales revenues. Increased expenses and rising costs both cut into our capital.

On the supply side: 1) The state does not permit us enough floating capital. According to the regulations, our factory should have floating capital equal to 70 percent of our assessed capital. However, in recent years the reality has been that we have had only 40 percent, and this is a big gap. Also, in coming up with the amount of floating capital allocated to the enterprise by the state, higher-level leading departments go by a formula whereby the planned quota for floating capital is equal to the capitalization rate for last year's production times

the planned value of this year's production times the assessed capital turnover rate. In this way they calculate the quota amount of planned floating capital for an enterprise. Then, based on an allocation ratio of 70 percent, the amount of floating capital is determined. The problem is that the higher authorities underestimate the planned value of this year's production, and they tell us to increase our production plan; the result being that there is a big gap between the capital we have and the capital that would be required to increase production. 2) Enterprises have very little ability to replenish their floating capital by themselves, and when they can the amounts are small. Enterprise self-replenishment of its floating capital comes from the production development fund. Part of an enterprise's production development fund is used for fixed asset investment, and the other part is used for replenishing the floating capital. With a low rate of depreciation and a heavy burden to renew and update equipment, an enterprise is forced to spend a huge chunk of its production development fund on technology renovation. In addition, undue amounts of the production development fund are taken up by social expenses. The result is that an enterprise finds it very difficult to replenish its own floating capital to even a minimal degree. In 1986, our factory followed the regulations and undertook to replenish its own floating capital. For our enterprise this required quite a chunk of money and we really had to pull in our stomachs. However, the amount of replenishment we came up with was only eight percent of our total profits for the previous year. In 1987, we again undertook to replenish our floating capital as per the regulations. This time the amount we came up with for replenishment was only four percent of our entire profits for the previous year. If we compare the amount of floating capital that we have with the quota of floating capital that we need, we can see that our existing floating capital represents only a fraction of what is needed. 3) We lack even the floating capital necessary to make a start on investment items. With the development of the planned commodity economy, an enterprise must think of all of the various ways it can raise money (including using its own), it must proceed with technology renovation, and it must expand its productivity in order to decrease vulnerability and become more competitive. However, when the floating capital necessary to make even a start on an investment item is not there, a big gap exists and the result is that after production of an item begins, there will be difficulties in floating capital turnover. For example, between 1983 and 1988 the fixed asset investment ratio between our enterprise and the nation went from 1:99 to 60:40. However, the ratio between enterprise floating capital and state floating capital allocations only rose to 13:87. This illustrates that when the enterprise's own funds are invested primarily in fixed assets, there will be insufficient floating capital available for start-ups. 4) Few avenues are available for fund raising, and the amounts are small. In the past, under the old economic system, enterprise fund raising was easy, the channels were few, and capital came from either the state financial departments or from bank loans. Now banks are encouraged to

choose the enterprises to which they want to loan money, and vice versa, and more channels are available from which to get capital. However, the current system of financial management is ill-suited for competition between specialty banks, and also, enterprises encounter certain difficulties in choosing banks. Although the banks have formulated "temporary methods for the management of short-term issue enterprise bonds," most enterprises are still in the learning stage with this, only a few enterprises have begun to try it out, and basically most enterprises are still left to raise capital from the old channels.

### The Route to Amelioration

**Capital use:** 1) Strengthen capital management, and increase the efficiency of capital use. We must broadly follow the policy of "he who uses the capital manages the capital." Also, we must bring together economic responsibility system audits, break down and return capital management responsibility to the various functional departments, rely on the supply, production, and sales departments to jointly take good care of the capital management work, control the surging amounts of capital that are being put into production use, spur the enterprises on toward tapping their own internal capital potential, and increase the efficiency of capital use. For example: in 1987, after concluding a contracting agreement with the aviation bureau for a fixed amount of floating capital marked by fewer bonuses and greater penalties, our factory's financial division signed a contracting agreement with our capital return department that called for clear management of objectives and implementation of economic responsibility. Remarkable success was achieved. The speed up rate for the floating capital quota exceeded 21 percent and the turnover period was the best ever. Similarly, capital deployment was reduced by 14.87 million yuan, we saved 1.17 million yuan in interest payments, and the 1 million yuan in fixed floating capital created 10 percent more profit taxes than the year before. 2) Adjust the product mix, and push for cost objective management when undertaking new product development. Here our factory has enjoyed numerous successes. For example: our factory pushed for cost objective management when developing the Z647-4A type eight inch color television. From the time we selected the style to develop we considered such factors as the amounts of exchange that would have to be deployed and the cost of materials. As a result, the material cost for each set was nearly 60 yuan less than that for similar products. At the same time, increased functions on the sets allowed us to earn an additional 20 yuan on each set sale. This allows us to use less capital, increase revenues from sales, speed up capital turnover, and accomplish many things at once. 3) Strengthen management of materials, and lessen the heavy pressure to stockpile reserves. Capital reserves are a major part of fixed floating capital. About 70 percent of our factories' fixed floating capital is capital reserves. In strengthening management of reserve capital, there are two things we must do. First, we must determine the reserve criteria for

each kind of material, we must earnestly draw up a purchasing plan, and we must balance our capital well. Second, we must see that our material department continues to improve its use of modern management techniques to raise its capital management level, we must make use of everything we now have in reserve, and we must take the capital we have lying around, sort it out, and make "living" capital out of "dead" capital. 4) Strengthen communication with the banks, and jointly invigorate the capital. Enterprises need bank support for credit, banks must be looked to for guidance on capital deployment, and the banks must be relied upon to help in getting information and making communications. To strengthen communication ties with the banks, an enterprise can strike an agreement with the bank whereby the bank will serve as an adviser, and the enterprise can ask the bank to take the initiative each day and provide the enterprise with a daily account summary so that the enterprise may know more about its capital and find it more convenient to use its capital rationally. 5) Strengthen management of nonfixed floating capital. We also must strengthen management of nonfixed floating capital, particularly of settled account funds, so as to lessen the problem of floating capital shortages. The financial department must collaborate with the sales department in promptly calling in loans that should be collected.

Capital sources: 1) Skillfully resolve the contradiction of the enterprise needing increased floating capital to develop production but having no ability to replenish the needed floating capital reserves itself. Two measures can be taken. First, when investing in planned items the enterprise can pull the start-up floating capital into the plan, make direct expenditures according to the regulated limits when dividing up profits, and can treat the amount that would ordinarily be turned over to the higher authorities as the state's floating capital appropriation and the amount that would ordinarily be returned to the enterprise as the enterprise's floating capital based on the profit distribution ratios or the income tax rates. Second, we can deduct energy and transportation/communication costs from the taxes to be paid on self-replenished enterprise floating capital so as to increase the amounts of replenishment the enterprise can make to its floating capital. These are all productive measures and it is hoped that the departments concerned could adopt them. 2) Bank support should be enlisted for that portion of the state allocation of floating funds that is insufficient and for that portion of the normal turnover that falls short so that we can ensure a stable source of capital necessary for production turnover. Enterprises need to get the necessary loans from the banks in a stable fashion, and a necessary condition for this is that the banks have sufficient capital to loan out. For banks to have sufficient loan capital, not only must the central bank lend its support, but the banks must actively seek out depositors. The savings and loan interest rates should not be turned upside down. Banks must begin to practice socialist competition among themselves and spur on enthusiasm within the bank itself. 3) Make full,

temporary use of special funds and throw them in with the turnover of floating capital. When following the principle that special funds will be used only after they have been raised, inevitably some of them will be foreclosed from being used. Considering the interests of the enterprise, if the enterprise puts these funds to active use then the enterprise management activity will benefit. However, one should avoid the current practice of borrowing special funds at no cost or not borrowing enough. We must permit and encourage the enterprise to temporarily throw special funds into the floating capital turnover cycle. Specific ways to do this would include stipulating reasonable costs of doing so, practicing loans with payments, and spurring on the enthusiasm of enterprises to be aware of the fact that they can draw on these funds for capital for temporary periods. 4) Push hard for accounting to be done with receipts and vouchers. For a long time now, most enterprises have exchanged their commodities in a "credit registration" manner. That is, each merchant has had his own tab and he adjusts this with each sale. The tabs are collected when the opportunity presents itself. This practice easily lends itself to slack accounting records and is a major reason why enterprises fall behind in loans to one another. Today, with banks tightening up and choosing only the best loans, abnormal debts have an effect on the normal turnover capital of a sales enterprise. The enterprise is forced to default on other loans and we have a vicious cycle. By pushing enterprises to use receipts and vouchers, documented credit can replace credit kept on tabs. Industrial and commercial enterprises are not sufficiently familiar with doing their accounting by receipts and vouchers, and today there is a general shortage of capital, and for these reasons and others many problems will be encountered in launching a drive to have accounting done by receipts and vouchers. Banks should adopt strong measures and push for this change. 5) Pay attention to bringing in new sources of capital. Reforms in the financial system and the gradual shaping of the capital markets will forge new channels from which enterprises can find capital. We cannot have enterprises suffering from crisis management of their capital and at the same time being accustomed only to the traditional management methods. With the reforms in the financial system going on, the enterprise should pay attention to the new channels from which it can access capital and increase the ways it can alleviate a capital shortage. Both the aviation department and the aviation bureau are now developing the business of internal loan discounting, and this gives full play to the role of temporary capital. However, in developing this business, one should not merely attract business by making the interest rates on deposits higher than that given by banks and the interest rates on loans lower than the bank rates. No, one should work hard to provide good service, accommodate the enterprise, alleviate capital shortages, and promote the smooth functioning of production and management activities. Only in this way will the enterprise be grateful, and only in this way can one provide the enterprise with an additional source of capital.

**Wang Senhao Speaks at Shanxi Finance, Trade Conference**

90P30016A Taiyuan SHANXI RIBAO in Chinese  
18 Mar 90 p 1

[Summary] A finance and trade work conference was held in March to resolve current financial difficulties and to promote steady economic development. Over 600 provincial leaders and responsible cadres attended the meeting, and both the governor and provincial deputy party secretary made speeches. In addition to acclaiming last year's achievements, Governor Wang Senhao outlined the following tasks for 1990: 1) Actively increase sales and support production; expand rural markets; give priority to the proportionate distribution of daily necessities and key industrial products to the rural areas. 2) Rectify wholesale operations; wholesale distributors of key consumer goods and agricultural materials must first obtain permits from the state commerce department; collectively or privately owned wholesale enterprises are only allowed to handle three minor products. 3) Take all factors into consideration when arranging the market; use commerce as a reservoir and increase effective supply. The provincial government plans to spend 230 million yuan to build reserves of 13 key products. Provide sufficient agricultural production material, and do a good job in purchasing agricultural by-products. 4) Improve grain and edible oil transactions; resolve edible oil shortages. 5) Assist local supply stations in serving agriculture. Banks are not to raise interest on loans for agricultural materials and by-products. The finance department will collect special product taxes directly from the peasants. 6) Clear enterprise debts, increase operating funds, and resolve fund shortages for ongoing construction projects. Local finance departments and planning committees should provide portions of operating funds for selected key industrial units, supply stations, and wholesalers. Finally, the governor emphasized political work, socialist direction, quality service, clean government, and steady development.

**FINANCE, BANKING****Subsidies in New Budget Pose Problem**

90CE0090A Beijing JINGJI RIBAO in Chinese  
27 Mar 90 p 2

[Article by staff reporter Sun Yong (1327 0516): "A Heavy Burden of Subsidies That Is Difficult To Bear—Report on the Third Reading of the Fiscal Budget"]

[Text] After reading carefully this year's budget report, the huge subsidies in it made a deep impression on this reporter. The reasons are: first, the large amount, namely, in the 1990 fiscal budget draft the enterprises' loss subsidy and price subsidy together total 106.316 billion yuan, equal to a third of the state budget; second, the growth rate of subsidies in recent years is shocking.

Consulting data this reporter discovered that the price subsidy borne by state finances was only 1.11 billion

yuan in 1978, and that by 1988 it had reached 31.68 billion yuan, an average rise per year of 39.8 percent, greatly exceeding the average rise per year in revenue in the same period of 8.2 percent. In 1978 the state's financial burden for the enterprises' loss subsidy was 12.49 billion yuan, and by 1988 it had risen to 44.65 billion yuan, an average rise per year of 13.6 percent, also greatly exceeding the growth rate in revenue in the same period. The enormity of this amount and the suddenness of its growth have already become a feature of the financial subsidy outlays' sharpened inflation, and have already become a heavy burden on state finances.

Seeing the 106.3 billion yuan outlay in subsidies in this year's budget draft made this reporter's heart feel heavy, because it means that the subsidies already seriously exceed the finances' capability to bear them. If this situation is allowed to go on, a situation will arise in which the finances are "useless soldiers" powerless to come up with the necessary investment for expansion of reproduction and for key construction outlays, with unimaginable consequences.

Viewed historically, the causes of China's financial subsidies are complex, and it is very difficult to solve this problem thoroughly within a short period of time. Some indispensable subsidies will exist for quite a long time. Looking just at the way the price subsidy came about, it has already become tied, either covertly or overtly, to our daily life. The people of Beijing once sighed with feeling that for over a year they had suffered a certain amount of times as if teetering across a bridge. Simply reducing the subsidies would give a strong shock to society's economic life, and would not be practical. However, there really will come a time when it will be necessary to sort out and rectify the subsidies. Wang Binggan [3769 0014 0049] in his report made this appeal: "This problem requires a high degree of attention on our part and our conscientious study to come up with a practical, feasible plan for solution." This urgent appeal makes people understand how difficult it is to continue these enormous financial subsidies.

This reporter is not an NPC [National People's Congress] deputy, and it seems inadvisable for me to make thoughtless comments about the subsidies. But as a citizen I also cannot avoid wanting to comment on the phenomenon of enormous subsidies. Under the premise that financial subsidies will exist for a very long time, to sort out and rectify them, there must be, first of all, a clear demarcation line drawn between losses of a business nature and losses of a policy nature. The following opinion is correct: losses of a business nature must be made up within a definite time period, and if this time period is exceeded there must no longer be a subsidy; on losses of a policy nature there must also be a quota subsidy, and if the quota is exceeded there must be no subsidy, thereby enhancing the work of turning losses into profits. At the same time there should be a scientific check and ratification of the existing standards for subsidies. Based on the effect of the subsidized items on the economic life of society, they should be appropriately

arranged in order, and the objects and amounts of the subsidies should be timely readjusted.

From the long-range viewpoint, we should analyze the causes of subsidies and reform the subsidies. Under the conditions of combining the planned economy with market regulations, to gradually smooth out the relationships of commodity prices is a critical step toward solving the subsidy problem, so that the enterprises' business losses no longer become the objects of subsidies and the policy subsidies are reduced to a minimum. We should also see another aspect of the problem, namely, financial subsidies are one means of regulating the economy and they cannot be completely eliminated from the economic domain. In the process of sorting out and rectifying financial subsidies, we should also learn how to better apply this means so that it is more helpful to the improvement of social and economic results.

## INDUSTRY

### Textile Industry Emphasizes Product Quality

*90CE0093A Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 20 Mar 90 p 3*

[Article by Peng Jialing (1756 0857 7117): "China's Textile Industry Is Changing Our Emphasis on Efficiency From Speed to Quality, To Raise Our Product Quality Consciousness"]

[Text] Although the rapid growth of China's textile industry in the last decade has become the focus of world attention, our output of cotton yarn and cloth have leaped to first place in the world, our export earnings from textiles have increased year after year and now account for one-fourth of China's export earnings, and China has joined the ranks of the world's greatest textile-producing nations, foreign businessmen and domestic consumers are both reporting that we have tended to neglect product quality somewhat in 1988 and 1989.

The Ministry of Textile Industry has taken this matter very seriously. At a meeting of the directors of textile departments and bureaus throughout China that was held at the end of 1989, it suggested that the time has come for China's textile industry to change our emphasis on efficiency from speed, to quality and variety, and designated 1990 as the year for achieving this goal. First, it put improvement of textile product quality on the agenda and drew up a series of measures to achieve this goal, then it asked all enterprises in all areas to conscientiously implement them at a national conference on textile industry quality that was held in Nanjing in mid-March 1990.

According to an analysis by the specialists concerned in the Ministry of Textile Industry, the following factors are the major limits on the quality of our textiles: 1) The quality of our textile raw materials is dropping, and distinctions between grades are not being made. 2) Some enterprises are putting too much emphasis on output

value and output, and using unsound and lax management practices. 3) Too many rural girls are being employed as operators, and training is not keeping pace. Policy issues are increasingly reducing the number of shop technicians, causing many to transfer to township enterprises. 4) Our equipment is obsolete.

A concerned leading cadre at the Ministry of Textile Industry pointed out that all efforts are being made to eliminate these limiting factors in 1990. At the quality conference in Nanjing, the directors of all provincial, autonomous regional, and municipal textile departments and bureaus throughout China, leading quality control cadres, and quality control inspectors from the foreign trade and commercial inspection sectors, were called together to raise quality consciousness. Small comparative exhibitions were held to display superior foreign samples, see where we lag behind, suggest improvement measures, and set standards. The specific goals that were set to improve the quality of our textiles in 1990 are to focus our emphasis on the outward appearance of our cotton yarn and cloth and improve our inspection, to promote a large-scale improvement in the quality of our textiles. We will raise the quality of the best grey cotton yarn and cloth that comes off of our looms, and improve the inherent quality, pattern, and design of our clothing, the variety and quality of our textile machinery to replace imports, and the quality and variety of our chemical fibers.

What specific steps will be taken to improve the quality of our textiles? The Ministry of Textile Industry has asked all textile departments to develop a strong quality consciousness and, through holding comparative product quality shows, see where we lag behind and draw up improvement measures. Overall quality control will be improved. In particular, basic control will be emphasized, and specific technology, equipment, and operational demands will be made, such as calling on weaving shops to resume labor emulation drives and launch 10,000-meter-flawless-cloth activities. Operating laws will be strictly enforced, and all operations, from the production to the packing and shipping of goods, will be strictly according to national standards. Control over raw materials will be improved, with the best materials being used to make superior goods, lower-grade ones being used to make lower-grade goods, strict grading, and rational grouping. Quality control criteria will be formulated and perfected, and quality supervision will be enhanced. A system of regular quality-analysis committees will be established, preparations will be made for setting up industrial quality control associations, and experience exchanges will be launched to evaluate and create superior quality. Moreover, technological advances will be speeded up, new products will be actively developed, and technological advances will be used to develop new products at a conference on technological advances in the textile industry that will be held in Shanghai in June 1990.

In addition, the Ministry of Textile Industry has asked all advanced enterprises to catch up with and surpass

advanced international standards, and create a number of hot-selling exports in the next year or two. Enterprises whose quality has declined must again attain their best level of quality in 1990, and those which incur damage claims by foreign businessmen in 1990 must propose rectification measures, analyze the causes, and correct the problems within the specified times.

As China's textile industry has a solid foundation and is of considerable size, provided the product quality consciousness of our 8 million staff members and workers is raised and the cooperation of foreign trade and commercial inspection departments is gained, the quality of our textiles should improve greatly in the near future.

### **Beijing Sets Goals for Industry 'Year of Management'**

*90CE0092B Beijing BEIJING RIBAO in Chinese  
12 Mar 90 p 1*

[Article by Bai Jiliang (4101 4949 5328): "The Beijing Economic Commission Has Proposed '10 General Targets and Six Management Tasks' as the Goals for Beijing Industry's 'Year of Management' Activities"]

[Text] I recently learned from the Beijing Economic Commission that Beijing's industrial sector has launched a yearlong movement to enhance its management and break out of its crisis. The Economic Commission has proposed "10 general targets and six management tasks" as specific goals for the "Year of Management," pointing out that they will indicate whether practical results can be achieved.

The 10 economic and technical targets are as follows:

To achieve a five percent growth rate for industrial production and a three percent growth rate for budgeted enterprises throughout Beijing Municipality, strive for a synchronized rise in efficiency, and emphasize production of 23 products that must be guaranteed, 200 key products, and small commodities.

To fulfil the 1990 quota of 1.29 billion yuan that is to be paid to the state from contract management system contracts.

To strive to supply 2.9 billion yuan of industrial exports throughout Beijing Municipality, or over 10 percent more than in 1989, and increase the number of key export enterprises and export specialty shops throughout Beijing Municipality to 200.

To strive to sign contracts for over 30 projects that attract \$70 million to \$100 million of foreign capital, open up and put into operation throughout Beijing Municipality 180, or 33 percent more than in 1989, of the three kinds of foreign trade enterprises, and strive to help them achieve an output value of 4 billion yuan, or 17 percent more than in 1989, and earn profits of 550 million yuan, or 34 percent more than in 1989.

To achieve a steady quality-improvement rate for the industrial sector of more than 95 percent in 1990, and once again win 15 national awards, 100 departmental awards, and 350 municipal awards for top quality.

To put emphasis on continuing 50 key projects for upgrading technology that are underway, completing and putting into operation 50 others, and reaching agreement on and taking bids for 50 more.

To complete development of 100 major new products, upgrade the S&T levels of 200 products, popularize 20 new technologies and 150 applied microelectronics technologies, and make 30,000 technological innovations and 500,000 rationalization proposals.

To make power and water consumption per 10,000 yuan output value three percent to four percent less, and major raw materials consumption two to three percent less than 1989.

To speed up fund turnover three percent to five percent, reduce fixed costs for products of similar specifications three percent to five percent, and keep the variable part of business management costs and shop expenses 10 percent lower than in 1989.

To eliminate extraordinarily serious equipment accidents, and keep the number of work-related deaths below 1989's level.

A professional goal management responsibility system, which has already been broken down and put into effect level by level for enterprises and individuals, will be used to achieve these 10 targets.

The "six management tasks" refer mainly to improving the management of quality, materials, funds, sites, and teams and groups; as well as enhancing the economic responsibility system.

### **Shanghai Offers Local Industry Loans for Technology**

*90CE0092A Shanghai WEN HUI BAO in Chinese  
3 Mar 90 p 2*

[Article by Chen Wei (7115 1919) and Gu Fabo (7357 3127 3134): "The Shanghai Municipal Government Is Offering Local Industry 50 Million Yuan in Loans for Upgrading Technology in 1990"]

[Text] Yuan Zhangdu [5913 1728 1653], director of the Shanghai Collective Enterprise Office, disclosed at a general meeting of collective enterprise cadres throughout Shanghai, which was held on 2 March 1990, that the Shanghai government has decided to offer local industry 50 million yuan in loans for upgrading technology in 1990, in order to enhance the growth stamina of collective enterprises.

Local Shanghai industry has won initial success in almost three years of restructuring its product mix. By 1989, the output value of its direct exports had increased

from five percent to 15.8 percent of its GVIO [Gross Value of Industrial Output], and the output value of its technology-intensive products had also increased from 5.3 percent to 16.3 percent of its GVIO. Although it has paid the state over 700 million yuan in taxes in three years, or more than 100 percent of the net value of its gross fixed assets, many of its enterprises do not have enough reserve strength due to historical evolutionary and development factors. Municipal party committee and government leaders have recently emphasized the need to actively support the growth of the collective economy, along with running well large and medium-sized enterprises. Mayor Zhu Rongji [2612 6954 1015] has pointed out that local industry will upgrade technology in order to develop a number of externally oriented enterprises and joint ventures, form a number of enterprise blocs, and build a bigger economy, which means that a number of enterprises will close down, stop production, merge, and upgrade their technology.

#### Xinjiang Adjusts Industrial Product Plan

90CE0092C Urumqi XINJIANG RIBAO in Chinese  
10 Mar 90 p 1

[Article by Pan Jinfei (3382 6930 2431): "The Xinjiang Uygur Autonomous Regional People's Government Has Adjusted Its 1990 GVIO Plan; Proposes Nine Measures To Resolve Key Issues Affecting Industrial Production"]

[Text] Although the Xinjiang Uygur Autonomous Regional Planning Commission had originally targeted Xinjiang's 1990 GVIO [Gross Value of Industrial Output] at 13 billion yuan and a growth rate of 10.2 percent, after holding conscientious discussions with the Xinjiang Uygur Autonomous Regional Economic Commission and, based on the breakdown of this target to all areas and departments, repeated studies, and Xinjiang's actual conditions, the Xinjiang Uygur Autonomous Regional People's Government has decided to adjust its 1990 GVIO plan to 12.8 billion yuan and a growth rate of 8.4 percent, which is still higher than the average growth rate throughout China. Moreover, it has studied and drawn up the following nine measures to resolve key production issues:

1. The "reserve" capacity of the management sector will be brought into full play to promptly procure according to plan, generally in less than two months, all products and export goods that are produced as special commodities and according to directive plans. Moreover, the management sector will be given additional interest-free circulating fund loans on correspondingly favorable terms with no interest penalties. Production enterprises will be allowed to sell outside of Xinjiang on their own initiative that part of the products that they produce according to directive plans which is beyond procurement plans.

2. Production enterprises will be allowed to export from Xinjiang overstocked products, such as pig iron, ferro alloys, rolled steel, wool, wool yarn, raw silk, leather, aluminum ingots, cotton yarn, cotton cloth (containing

white and grey), and paper. Export examination and approval formalities will be temporarily cancelled for these products, industrial and commercial departments will issue export licences for them immediately at any time without charge, and one license will be good for a whole year. The part of directive products procured by the commercial sector beyond that necessary to meet Xinjiang's needs, will be allowed to be sold outside of Xinjiang.

3. The Xinjiang Uygur Autonomous Region will apply to the state for special resolution of circulation violation issues regarding "commodities that violate circulation rules," such as pig iron and rolled steel, which must be exported from Xinjiang because changed circumstances have made Xinjiang more than self-sufficient in them.

4. The industrial sector must make appropriate concessions to the commercial sector on certain overstocked products, pricing departments should allow commodity prices to be reduced and, except for the prices of a few products that are specially produced according to directive plans for sale in Xinjiang and have to be submitted by industrial and commercial coordination committees to pricing departments for approval, the right to reduce prices of other products will be devolved to enterprises.

5. Priority will be given to granting production enterprises an appropriately increased amount of circulating fund loans;

6. After ensuring exports of raw materials, such as cotton, licorice root, and crude oil, Xinjiang's manufacturing capacity needs should be ensured before those of other areas.

7. The relevant documented provisions of the Xinjiang Uygur Autonomous Regional People's Government will remain in effect, and it will be strictly forbidden to buy and import from other areas products that can be made in Xinjiang.

8. The Xinjiang Uygur Autonomous Regional Economic Commission and the Urumqi Railway Bureau will make the shipping of overstocked products a key task to be fulfilled conscientiously.

9. A coordination leading group will be set up to coordinate industrial and commercial relations, study market development, and resolve the issue of overstocking of products.

#### COMMERCE

##### More Tibetans Engage in Commerce

OW3004104890 Beijing XINHUA in English  
0939 GMT 30 Apr 90

[Text] Lhasa, April 30 (XINHUA)—Maqiong, a former herdsman from Nagqu Prefecture, left his cows and sheep behind and came to Lhasa to become a garment dealer, for he had not enough work to do at home.

"I have three brothers, and the livestock breeding work of my family doesn't need so many hands, when I found it was profitable to be a clothes dealer in 1985 I started my present career," said the 25-year-old Tibetan.

He runs a small shop with his wife, Lamu, who used to be unemployed, on Barkor Street in downtown Lhasa, capital of the Tibet Autonomous Region.

Maqiong said his marriage was also a result of his change of career. "When I first came to Lhasa, I had to sell agricultural and livestock products and Tibetan costumes in the open or under house eaves. Then, Lamu often lent me a hand, and she is more skillful at business. Later, we got married and set up this shop," he said. Maqiong is one of more than 2,100 registered self-employed commercial households throughout Tibet, which employ 3,000 people. Their annual business volume has reached 201 million yuan. They have engaged in sales of traditional products, handicrafts, daily necessities, garments, meat, eggs and vegetables, as well as freight and passenger transportation, and catering services.

Some of them even travel to big cities like Shanghai, China's largest industrial city, and Guangzhou to import commodities.

Due to preferential treatment provided by the regional people's government to encourage local commercial development, such as no limits on business scopes and taxes breaks, Maqiong said, more and more Tibetans are turning to commerce.

The flourishing commercial market in Tibet, in Lhasa in particular, has attracted business people from other parts of the country, too.

A brief tour of Lhasa has found 24 stalls selling vegetable seeds. The accents of the stallholders betrayed them as being from east China's Zhejiang Province.

Lou Genchang, a Zhejiang native, said he could sell about five kg of vegetable seeds and earn 200 yuan to 300 yuan a day. "I can provide more than 30 varieties of vegetable seeds, and local people want them all," he said.

But, only a decade ago many Tibetans were not accustomed to eating vegetables at all.

## FOREIGN TRADE, INVESTMENT

### New Satellite Services Offered to Foreign Clients

HK0305114190 Beijing CEI Database in English  
0938 GMT 3 May 90

[Text] Beijing (CEI)—China's Great Wall Industrial Corporation will offer foreign clients with various services with its returnable satellites, communication satellites and ground satellite systems.

According to a recent seminar here on the application of space technology, China now prepares to open in the

international market new satellite services and run new cooperative projects after fulfilling its own needs. The services can include:

- returnable satellites, which may carry out micro-gravity experiments for foreign clients, offer satellite pictures for cartographic survey and drawing, and provide returnable containers or even whole satellites.
- communications satellites, which may suit the demands of the developing countries or medium and small countries for domestic or regional telecommunication, and broadcasting in the C or C-KU channels.
- ground satellite systems, which include various satellite telemetering and control equipment, operational stations and application systems such as ground or sea borne satellite cloud atlas receivers, ground satellite communication stations, satellite television receivers and ground resource survey satellite receiver stations.

In addition, China is willing to participate in bilateral or multi-national programs on joint development or launching of satellites to satisfy mutual demands, and on the joint operation of satellites and exploration of the satellite market.

### Beijing Foreign-Funded Enterprises Increase

OW2604104790 Beijing XINHUA in English  
1122 GMT 23 Apr 90

[Text] Beijing, April 23 XINHUA)—A Sino-Japanese textiles business was set up in the suburban Miyun County last Sunday, bringing the total number of foreign-funded enterprises in the Chinese capital to 651.

These businesses involve contracted investment totalling 4.14 billion U.S. dollars. Of this, 1.87 billion U.S. dollars has been made use of.

According to an official from the Beijing Foreign Economic Relations and Trade Commission, 70 percent of the foreign-funded enterprises are production-oriented.

In the first three months, the official said, Beijing's foreign-funded businesses produced 910 million yuan worth of goods and their income through sales totalled one billion yuan, 51.3 percent and 30 percent up respectively as compared with the same period last year.

The local authorities approved 55 enterprises with foreign investment in the first quarter, 19 percent up.

### Expanded Textile Exports to Soviet Bloc Planned

90CE0008A Beijing GUOJI MAOYI WENTI  
[INTERNATIONAL TRADE JOURNAL] in Chinese  
No 2, 28 Feb 90 pp 49-50

[Article by Chen Hongfei (7115 7703 7378): "Expanding Textile Exports to the Soviet Union and Eastern Europe"]

[Text] Competition in the international textile market is extremely fierce these days. Several developed Western

countries have adopted one measure after another to restrict imports, causing Chinese textile exports to face an exceedingly severe challenge. For the Chinese textile production and export to maintain steady development, expanding textile exports to the Soviet Union and Eastern Europe and achieving a diversification of the export market has important realism.

In the last few years, textile needs of the Soviet Union and Eastern Europe have steadily increased. In 1988 alone Zhejiang Province's textile exports to the Soviet Union and Eastern Europe reached \$19.75 million, an increase of 28.8 percent over 1987. Among these cotton cloth exports increased 17 percent over 1987. Obviously, the Soviet Union and Eastern Europe are a market for Chinese textile exports that should not be overlooked. In today's world several textile exporting countries are striving to open up the Soviet and East European market. For example, South Korea's trade promotion organization has already established offices in Poland, Democratic [East] Germany, and Yugoslavia. Therefore, not losing any time in expanding textile exports to the Soviet Union and Eastern Europe and firmly capturing the Soviet and East European markets is an important measure in China's export strategy. Below we will discuss a few observations on how we accomplish this task.

#### *1. Grasp the Opportunity, Expand Exports*

The Soviet Union and several East European countries are presently pursuing economic reform policies to quicken the pace of their opening to the outside world. In 1986 China's volume of trade with the Soviet Union was only \$2.64 billion, with Romania \$795 million, with Poland \$979 million, and with Bulgaria \$103 million. According to estimates, by 1990 Chinese-Soviet trade volume could reach \$16.8 billion, Chinese-Romanian \$5.2 billion, Chinese-Polish \$3.17 billion, and Chinese-Bulgarian \$477 million. China's trade volume with Czechoslovakia, Democratic Germany, Hungary, and Yugoslavia have also shown increases year after year. Therefore, prospects for development of trade with the Soviet Union and Eastern Europe are optimistic and it is quite possible to expand textile exports to these countries. We must grasp this golden opportunity.

#### *2. Keep Abreast of the Characteristics of National Trade Agreements, Conduct Trade Fairs Well, Design Well*

Soviet and East European light industries and textile industries are comparatively backward. Light industry and textile products often do not supply the demands of the market. This is a very advantageous condition for China to expand light industry and textile exports. But China's trade with the Soviet Union and Eastern Europe is conducted principally through agreement trade. Agreement trade has its peculiarities. It is conducted by two national governments through signing trade agreements and using the method of keeping accounts. Therefore, it is characterized by balanced imports and exports, pairing of hard and soft commodities, and the seller supplying samples. The whole process of agreement trade from providing samples, to negotiations, to

clinching the deal, to claiming damages is arranged in a unified manner by a general corporation. As far as branch companies are concerned, their principal task is to conduct trade fairs and provide timely information to the factory on such aspects as the national characteristics of Soviet or East European trade agreement countries and the clients' requirements for the product so that the designers can understand what the people of that place want and need to wear and they can design the style and color patterns that the people of that place like and produce magnificent colors and designs, wide variety, and merchandise that fits the market.

#### *3. Emphasize Quality, Stress Reputation*

Chinese textiles have historically had a rather high reputation on the Soviet and East European market. As early as the 1950s, the Soviet Union was the biggest customer for Chinese textiles. The improvement of Chinese-Soviet relations in recent years should undoubtedly provide a vigorous impetus to the further expansion of bilateral trade. But, expansion of the trade volume must be based on the good reputation of the product, and a good reputation also must be premised on reliable quality. This point is extremely important in agreement trade. This is not only related to the reputation of the product, but it is also related to the country's reputation. For example, because the 70500/11MF colored velveteen fabric produced by Shaoxing County Foreign Trade General Velveteen Factory is soft, with an ample pile and a bright luster, the Soviet Union and Bulgaria order it every year. Only if China constantly improves product quality, can we firmly establish the product's reputa

#### *4. Play Up Local Excellence, Improve Economic Performance*

China's coastal textile industry is rather developed and has a certain excellence. As far as Zhejiang ports are concerned, in the past two years they have continuously been named in the top ranks of the whole country in textile agreement trade figures and some varieties have been first in the entire country. In 1988, Zhejiang ports' textile agreement trade all together achieved a volume of 28.96 million Swiss Francs, accounting for one fourth of the whole country's textile trade. Zhejiang's colored velveteen, colored full-line jacquard furniture fabric, colored sanforized denim, corduroy, colored finespun, and poplin all are highly regarded by buyers. The quality of these products is rather good, the colors are bright, the arrangements are clear, the prints are distinct, and the samples provided are suitable. So, their selection rates are among the best in the whole country.

In recent years, because sources of dyes and raw materials are tight, costs have gone up. Under these circumstances, we must pay even more attention to regulating the production structure, improving the grade of products, developing new varieties, and producing products

that suit the market in order to maintain relatively good economic performance. For example, in one trade talk our port offered Hangzhou No 3 Textile Mill produced "57857" colored jacquard furniture fabric with a large rolled up leaf jacquard, striking to look at, with the strips evenly distributed and the calendering well measured, and in accord with the international trend. Therefore, they were rather well liked by the other side. The result was that even though our side asked a rather high price, the customer still accepted it. That type of product is in great demand on the Soviet market.

Moreover, the same type product could fetch a different price in a different country. For example, the Zhejiang Textile Company's "57853" sofa fabric, sells to the Soviet Union for 5.55 Swiss Francs per meter and sells to Bulgaria for 6.00 Swiss Francs per meter. It is obvious that the past practice of a single system for the Soviet Union and Eastern Europe might be changed.

#### *5. Adapt to Change, Do Every Segment of Foreign Trade Work Well*

In the past, the vast majority of Soviet and East European orders were characterized by large batches, large packages, and long term deliveries. In recent years following influence of the economic reforms and the opening to the outside, Soviet and East European countries' requirements in such aspects as batching and packaging have undergone changes. For example, in the past, Democratic (East) German requested that large package weight not to exceed 80 kilograms per crate, but last year their weight request was changed to not to exceed 30 to 40 kilograms. In the past, only Hungary requested attaching washing instructions. Now, Democratic Germany has also brought up this demand. In the past, the Soviets only had one consignee; comparatively simple. Now, they have increased it to four to ten. In the past, trade with agreement countries was large in volume and short on varieties. Now, there are many varieties and small volume. Trade with the Soviet Union and Eastern Europe has undergone very great changes in quality, packaging, consignment time, volume, and variety. We must adapt to the changes and try hard to catch up in doing every sector of foreign trade work well to acquire foreign exchange for the country.

Trade between China and the Soviet Union and Eastern Europe has a long history and Chinese textiles enjoy a rather high reputation in the Soviet Union and East European countries. Therefore, there is great promise for expanding textile trade with the Soviet Union and Eastern Europe, and further improvement in economic performance is also possible.

#### **Inner Mongolia Signs Trade Agreements With Soviet Republic**

*HK0305061890 Hong Kong ZHONGGUO TONGXUN SHE in Chinese 1356 GMT 22 Apr 90*

[Report: "Hulun Buir League of Inner Mongolia Signs Cooperative Agreements With Buryat Republic of the Soviet Union"—ZHONGGUO TONGXUN SHE headline]

[Text] Hohhot, 22 Apr (ZHONGGUO TONGXUN SHE)—Invited by the relevant department of Buryat

Republic of the Soviet Union, an economic and trade delegation of the Hulun Buir League [administrative division] Import and Export Corporation of Inner Mongolia visited Ulan-Ude City in the Soviet Union several days ago. Both sides held talks on problems including setting up Sino-Soviet joint ventures, and initialed and concluded seven pacts (drafts) and agreements, which include the following:

A pact (draft) was initialed on Sino-Soviet cooperation in building a repair center in Hailar, with a total investment of 3.548 million Swiss francs. The Chinese will invest 1.89 million Swiss francs, accounting for 53.2 percent, and the Soviets 1.658 million Swiss francs, or 46.75 percent.

An agreement was reached on setting up Chinese stores in Ulan-Ude City. The Soviets will gratuitously provide sites, facilities, and warehouses for these stores, and the Chinese will provide commodities according to Soviet requirements.

According to proposals of the relevant departments of East Siberia of the Soviet Union and East Germany, both sides concluded a letter of intent on China, the Soviet Union, and East Germany to pool capital to build a new bus factory in Ulan-Ude City.

In addition, a letter of intent was signed that China will send cooking experts to Baykal sanatorium, where a Chinese restaurant will be set up. The Soviets will provide a site, facilities, and raw materials. Both sides also discussed cultural and sports exchanges as well as building tourist spots in both countries.

The northwestern part of Hulun Buir League is the only region of Inner Mongolia having a common border with the Soviet Union. Border trade and friendly exchanges between the two countries have grown over the last few years. Manzhouli City in the west of Hulun Buir is China's largest land transportation port and is also China's main land port for trade, technological, and economic exchanges with the Soviet Union. Through this port, foreign trade departments in Hulun Buir League have established stable trade and technological cooperation with seven Soviet federated republics and a dozen or so oblasts, cities, and regions. They have also developed new trade exchanges with the European region of the Soviet Union, including Leningrad; these exchanges are gradually expanding in the Soviet Union. Soviet construction projects undertaken by Hulun Buir construction companies are appreciated by the Soviets for their good quality and rapidness.

#### **Light Industrial Exports To Rise**

*HK0705024790 Beijing CHINA DAILY in English 7 May 90 p 2*

[By staff reporter Jiang Xiaoyun]

[Text] Exports of light industrial goods are expected to continue growing after 1989's record in which China sold abroad goods worth \$9 billion.

The Ministry of Light Industry's goal for this year is to export goods worth \$10 billion, says Liu Shixiao, director of the ministry's export office.

Light industrial machinery and electronics exports are expected to top \$2 billion, an 11 percent increase from 1989 figures. And exports of canned food, ceramics, art work, embroidery, carpets, shoes, toys, household electrical appliances, bicycles and clocks are all expected to increase this year.

According to statistics from the General Administration of Customs, China exported during this year's first quarter 905,264 TV sets, 56 percent more than during the same period last year, and 4.1 million tape recorders, 107 percent more. Sewing machines for industrial use, leather shoes and toys registered increases ranging from 16 percent to 43 percent.

Liu said China is cultivating sophisticated markets such as the United States, Japan, Western Europe.

Statistics from the Ministry of Light Industry showed 8 percent of China's light industrial exports goes to the United States, 7 percent goes to Japan, 5 percent goes to West Germany and 3 percent goes to Britain.

The quality of China's products have improved in recent years and shoppers get a variety of designs now.

Phoenix bicycles produced in Shanghai have reached international standards and American safety standards as well. They are listed among the world's most famous brands.

Glassware produced in Dalian, Chongqing, Shanghai, Tianjin, Hebei is in good demand in the United States, Canada, Western Europe, Japan.

China clocks have been redesigned, no longer those round and awkward old faces, and they are known now for their novelty and craftsmanship.

Chinese sporting goods, such as footballs, volleyballs, basketballs, table tennis balls and tennis balls are listed as world famous brands and used in world matches.

Violins are sold abroad as well as the Nordiska piano produced by the Yingkou-based Northeast Blessing Piano Group Company.

Meanwhile, China is developing products in great demand on the world market such as high-grade bicycles, high-speed sewing machines for industrial use and complete sets of ceramic tableware.

In addition, processing and assembly of goods provided by overseas businessmen are expected to increase. Investment from Taiwan and Hong Kong would also increase, Liu said.

### Sino-Australian Iron Ore Mine Inaugurated

OW0405184290 Beijing XINHUA in English  
1540 GMT 4 May 90

[Text] Canberra, May 4 (XINHUA)—Australian Resources Minister Alan Griffiths today praised the Channer iron ore mine, a Sino-Australian joint venture, as "a significant milestone in the development of bilateral relations" between the two countries.

Speaking at the Channer mine opening ceremony, Griffiths said: "This project will strengthen further the well-established mutual dependence which has grown up between Australia's iron ore industry and China's expanding iron and steel industry."

The Australian Government welcomes China's direct participation in the development of our iron ore industry and in the sharing of access to production which this entails, he added.

Chinese Minister for Metallurgical Industries Qi Yuanjing highly praised the successful opening of the Channer mine joint venture, saying that "it is a magnificent example of the economic cooperation between China and Australia," and "it is also a result of China's implementation of reform and open-door policy."

Qi Yuanjing assured the participants at the ceremony that the Chinese Government will continue to implement the reform and open-door policy.

General Manager J. Ralph of CRA, to which the Australian partner Hamersley Holdings Limited belongs, said at the ceremony that "Australian companies including CRA and Hamersley, hope to build further on the competitive strengths of Australia and China to expand cooperation into new spheres."

The Channer mining joint venture project involves the mining and recovery of iron ore from the Channer mining area, at a peak rate of approximately 10 million tons per annum. 200 megaton of ore will be mined during a period of approximately 20 years.

The China Metallurgical Import and Export Corporation, the Chinese partner in the joint venture, ensures a market in China for the total annual output of the mine, while Hamersley provides the iron ore reserves, together with the experience and knowledge required to ensure the successful operation of the project.

### Guangdong Trade Fair Registers Scant Increase

HK0105014390 Hong Kong SOUTH CHINA MORNING POST (BUSINESS POST) in English  
1 May 90 p 1

[By Geoff Crothall in Guangzhou]

[Text] China's premier "window on the world," the Guangzhou Trade Fair, closed yesterday with only a slight increase in trade volume over last year.

Export contracts signed during the 15-day trade fair totalled U.S.\$5.65 billion, a rise of \$80 million over the previous spring fair, according to preliminary figures released by the fair's secretariat.

Announcing the figures, the fair's secretary-general, Ms. Sun Baoru, would only say the general situation at the fair had been "not bad."

Attendance at the fair crept past the psychologically important 40,000 mark on Sunday, making it the second highest attendance since the autumn fair of 1988 with more than 41,000 visitors. But this was only made possible by a dramatic increase in the number of Taiwan visitors.

A total of 4,463 Taiwanese attended the fair this year, compared with just more than 2,000 last autumn. There was a slight decrease in the number of Japanese but a significant decline in visitors from the United States and Europe.

Nearly 50 percent of the export contracts, or \$2.72 billion, went to Hong Kong, while \$563 million went to the European Community, \$435 million to the U.S. and \$398 million to Japan.

Guangdong once again led the export pack with contracts valued at \$924 million, followed by the special economic zones (\$730 million) and Shanghai (\$418 million).

Fair officials made no attempt to hide their disappointment at the results after intensive efforts this year to re-establish Guangzhou as China's most important trade-fair venue.

Earlier this year, the Ministry of Foreign Economic Relations and Trade drastically curtailed the number of specialist regional trade fairs which were threatening to undermine the status of the Guangzhou fair.

Only three regional fairs, in Shanghai, Tianjin, and Dalian, will be allowed to be staged on an annual basis.

#### Tianjin Plans Establishment of Free Port

OW2304051390 Beijing XINHUA in English  
0727 GMT 21 Apr 90

[Text] Tianjin, April 21 (XINHUA)—After two days of discussion on the basis of a two-year feasibility study, nearly 100 experts invited to a seminar here from all parts of China agreed unanimously Friday on the necessity of setting up a free port in Tianjin, North China.

The experts proposed that the free port should be established near the Tianjin Port and should be divided into a free-trade district, an export-processing district, a warehouse district and a petroleum products district.

The experts noted that the Tianjin Port is the start of the shortest continental route between Asia and Europe.

They also held that, after a decade of opening to the outside world, Tianjin has the right conditions for the establishment of a free port.

The seminar was sponsored by the research center to advise on economic, technological and social development under the State Council and the Tianjin Municipal Communications Committee.

#### ECONOMIC ZONES

##### Free Port Area To Be Established in Dalian

HK0605003890 Hong Kong CHING CHI TAO PAO  
[ECONOMIC REPORTER] in Chinese No 16,  
23 Apr 90 p 8

[From "Informed Source" column by Yu Yi (0060 0044), filed on 18 April: "Dalian Plans To Establish a Free Port Area"]

[Text] The planning and study of a free port area in Dalian has been placed on the agenda of the decision-making body. A preliminary file has been prepared and some practical steps are also being taken.

According to a briefing by an authoritative person joining in the planning of the free port area, this work was placed on the agenda of the decision-making body last July. At a "Meeting To Investigate and Study the Question of Opening a Free Port Area in Dalian," Bi Xizhen, secretary of the Dalian City CPC Committee explicitly indicated that Dalian's advantages lie in its port and, therefore, the optional pattern of opening wider to the outside world "should not be an ordinary special economic zone but a free port area."

People here believe that setting up a free port area in Dalian and increasing openness are urgently needed by the economic development of Dalian's direct hinterland, namely, the three northeastern provinces and the eastern part of Inner Mongolia. This economic region, which covers 1.24 million square km, has a population of over 100 million, is rich in natural resources, and has a solid industrial foundation, good transport and communications facilities, a relatively strong scientific and technological force, and a relatively high development level of productive forces as far as the mainland is concerned. Although it has made good progress in the export-oriented economy in recent years, it lacks a "dragon head" or "window" opening wide to the outside world and possessing a stronger appeal and a capacity to fan out in all directions. Compared with coastal areas in the south, its pace in opening to the outside world is slow. There are many basic conditions for the establishment of a free port area in Dalian: 1) It has a superior geographical position, and has the second major port in China, which can be linked to over 140 countries and regions; a new port area is also being built. 2) In recent years, Dalian has had many successful experiences in opening up to the outside world and establishing an economic and technological development zone, and has created

many conditions. 3) Dalian has been listed a free port in the past, albeit while under the occupation of foreign powers, and as a result it also has experience in rapid development. Given the conditions today, it should be said that it has a better prospect for development.

## AGRICULTURE

### Agriculture Ministry Investigates Peasant Burdens

90CE0025A Beijing NONGYE JINGJI WENTI  
[PROBLEMS OF AGRICULTURAL ECONOMY]  
in Chinese No 2, 23 Feb 90 pp 57-60

[Article by Overall Planning Department, Ministry of Agriculture: 'Survey of Peasants' Burdens']

[Text] Peasant burdens are a problem that has become increasingly prominent since the institution of output-related contract responsibility systems in rural villages. Peasants generally report that their burdens are too heavy; grassroots level cadres wrack their brains to collect levies; and government at all levels as well as those concerned are unable to agree how to treat the peasants' burdens. As yet, there are no fixed rules and regulations or legal procedures for examining and approving, nor is there any unified administrative unit in charge. To clarify the peasants' burdens situation, we surveyed 174 agricultural economy information network point counties (cities and districts) in 27 provinces, autonomous regions, and directly administered municipalities, compiled information about various financial burdens borne at 141 points in 1988, and did a preliminary study.

#### 1. Just How Heavy Are the Peasants' Burdens?

The peasants' burdens may currently be divided into visible burdens in the form of direct payments of fees and materials including the taxes, fees, withholdings, collections, and contributions levied by the central government, provinces, prefectures, counties, townships, and villages; and hidden burdens in the form of indirect payments including obligatory labor, wild increases in the prices of the means of production, and differentials between state and market prices for staple agricultural products.

(1) Statistical Analysis of Visible Burdens. A collation of data from 141 agricultural economy information network point counties (cities, and districts) on peasant visible burdens in 1988 showed 74 named payments that can be put into 18 different categories. They amounted to 39.12 yuan per peasant, or 8.22 percent of the peasants' annual net income.

The names, content, and amount of money of the 18 categories of peasant burdens are: (1) Agricultural tax of 9.04 yuan per peasant. (2) Farming and forestry special products tax, a per capita peasant burden of 1.35 yuan. The slaughter tax is included. (3) Village organization cadre wages and administrative expenses, 6.15 yuan per

peasant. (4) Education fee of 6.10 yuan per peasant. (5) Allowance for military conscripts and the families of servicemen and martyrs, 1.33 yuan per peasant. (6) Living allowance for households enjoying the five guarantees [childless and infirm old persons who are guaranteed food, clothing, medical care, housing, and burial expenses] at 0.90 yuan per peasant. The subsidy for needy households and insurance for the households enjoying the five guarantees are included. (7) Fee for irrigation and drainage ditch, road and bridge construction and maintenance at 2.54 yuan per peasant. (8) Planned parenthood fee at 0.93 yuan per peasant (excluding fines for excess births). (9) Militia training at 0.36 yuan per peasant. (10) Newspaper and magazine subscriptions at 0.36 yuan per peasant. (11) Movie entertainment fee at 0.36 yuan per peasant. (12) Broadcast service fee at 0.32 yuan per peasant. (13) Science, technology, and culture fee at 0.24 yuan per peasant. (14) Human and livestock epidemic prevention fee at 0.56 yuan per peasant. (15) Water fee at 0.82 yuan per peasant. (Because agricultural product cost statistics continue to use the former terminology, the water fee is termed the water resources fee in some places and is not included among costs, it is figured as a withholding). (16) National bonds at 1.48 yuan per peasant. (Since the purchase of national bonds is a fixed assessment, and peasants do not take possession of the bonds in a majority of places, they fall in the category of collective withholding. Thus, they are classified as a burden.) (17) Insurance of various kinds at 0.64 yuan per peasant. Since insurance is mandatory in most places, the more money paid the smaller the premium and the more beneficiaries the premium is even smaller, this is considered a burden. (18) Other expenses amounting to 5.65 yuan per peasant. This includes bookkeeping services fees, telephone line maintenance fees, pooling of funds to operate township and town enterprises, land readjustment fees, identity document fees, old cadre burial fees, party member study and living expenses, greening fees, fees for the issuance of homestead certificates, judicial announcement fees, road transportation fees, contract project assistance fees, farmland construction fees, contract police public order fees, land use fees, various kinds of assistance, fees for erecting electric power and telephone lines, township and village planning fees, fees for civilian laborers working on public roads, fees for protection against hailstorms and excess rain, village-prescribed pesticide fees, rat elimination fees, pooling of funds to build old folks homes, allowances awarded for giving birth to only one child, and hospital, school and health service improvement fees.

Ranking the 18 kinds of burdens in terms of the money amount is: agricultural tax, rural organization cadre wages and administrative expenses, education expenses, other, drainage and irrigation ditch, road, and bridge construction and maintenance, farming and forestry special products tax, allowance for military conscripts and for the families of servicemen and martyrs, plant parenthood fee, living expenses for the households enjoying the five guarantees, water fees, human and

animal epidemic prevention fee, militia training, newspaper and magazine and movie fees combined, followed by the broadcast service fee and the science, technology, and culture fees, which are least.

In terms of the size of the burden, the amount of money involved is greatest in Xunke County, Heilongjiang Province, 183.22 yuan per peasant or 24.24 percent of annual net income. Second comes the counties and cities of Wuxian, Changtu, Baoying, Penglai, Zhucheng, and Boluo, where the per capita burdens are 126.57, 85.30, 77.83, 84.68, 76.87, and 72.21 yuan respectively. The burden is lightest in the suburbs of Dinghai City, because township and town enterprises help soften the bite, it amounts to only 6.87 yuan per capita, or 0.8 percent of net annual income.

There are three inequities in peasant burdens. One is the inequity in kinds and amounts of the burdens of counties, townships, and villages, or even an extremely great disparity in burdens of neighboring village organizations in the same township and town. Second is the unequal burden borne by people of different ages in the same township and village, particularly the requirement that at a certain age one is required to help build roads, erect power or telephone lines, build schools, or operate factories, thereby causing an abrupt increase in one's financial burdens. Third is that in a majority of counties (or cities and districts), the burdens of peasants in different industries as a percentage of their net income is unequal, and the gap is great. Everywhere, the burden of grain-growing peasants is heaviest followed by the peasants who grow cash crops. For those peasants who work in the aquatic products breeding industry, do hauling, or have their own enterprise, the proportion of the burden tends to be low.

An analytical comparison by region showed the per capita burden to be fairly high at 42.60 yuan in 67 network point counties (cities and districts) in the 11 eastern and coastal provinces, autonomous regions, and directly administered cities. At 47 network point counties (cities or districts) in eight central provinces, autonomous regions, and directly administered cities, the per capita burden was 39.93 yuan. At 27 network point counties (cities or districts) in seven western provinces and autonomous regions, the burden was fairly low at 24.74 yuan. The overall spread showed three different levels.

An analytical breakdown according to net income showed the following, in counties (districts, and cities) having a low per capita net income, the absolute value of the per capita burden was low, but the relative value was high. In counties (districts and cities) having a high per capita income, the per capita burden was also high in absolute terms, but low in relative terms.

**(2) Calculation of Hidden Burdens.** Compulsory labor is a peasant burden. Compulsory labor varies in different places, in some areas each laborer performs more than 40 workdays of labor each year, in other places each laborer performs fewer than 5 days of labor each year, and the value of labor varies from 3 to 5 yuan per day. If each laborer performs 20 days of obligatory labor in accordance with national regulations, and the cost is figured at 2.50 yuan per workday, then the per capita burden is 10 yuan.

Breakdown	Per Capita Burden (Yuan)	Per Capita Net Income(Yuan)	Burden as a Percentage of Net Income %
300 Yuan and Below	21.48	240.23	8.94
301-500 Yuan	31.48	400.71	7.86
501-700 Yuan	47.59	604.00	7.88
701 Yuan and Above	66.82	1,029.90	6.49

The differential between the state parity and negotiated procurement price of grain and oil, and the current cotton procurement price that was lower than the normal price of cotton figured in terms of the price ratio between grain and cotton reduced the state procurement bill by 16.676 billion yuan. This cost the peasants 19.39 yuan per capita. These figures were arrived at in the following way:

In 1988 the state purchased 50.483 billion kilograms of grain at parity price, the differential between parity price and negotiated price was 11.511 billion yuan.

In 1988 the state purchased 979 kilograms of edible oil at parity price, the differential between parity price and negotiated price totaled 545 million yuan.

In 1988 the state purchased 72 million dan of cotton at a procurement price averaging 2.92 yuan per kilogram. Figured at a fair grain to cotton price ratio (at a 1:8 ratio between cotton and wheat, the actual negotiated price of wheat averaged 0.64 yuan per kilogram), the state procurement price paid for cotton was lower than the normal grain to cotton price ratio of 0.60 yuan, the differential amounting to 4.62 billion yuan.

Additionally, the price differential between parity and market prices in fixed procurement of hogs, eggs, and vegetables, and the wild price rises for agricultural means of production, fake and low quality agricultural pesticides, chemical fertilizer, plastic sheeting, and seeds, lowering grades in order to lower prices paid in procurement of agricultural products, difficulties in buying and difficulties in selling also created burdens for the peasants. Each peasant paid approximately 35 yuan in these various hidden burdens.

The statistical analysis provided above shows that each peasant carried a burden of approximately 75 yuan in visible and hidden burdens.

## 2. Peasants Universally Report Burdens Are Excessive

Our survey shows that the overly heavy burden that the peasants report is attributable primarily to the following:

(1) **Equal Assessments.** In some areas, no matter whether or not a peasant household met state procurement quotas for grain, cotton, edible oil, hog, and vegetables, all peasant households had to pay the state an average differential price for the portion of quotas that the jurisdiction did not meet; no matter whether or not a peasant family did or did not grow cash crops, an average farming and forestry special products tax was assessed on all peasants; no matter whether a peasant's income was high or low, all peasants in any given industry were assessed an average amount; no matter whether a peasant received any benefit or not, he was assessed an average portion of expenses for public welfare projects such as the building of irrigation and drainage ditches, bridges, the erection of electric power and telephone lines, and roads; and no matter whether a peasant did not raise and slaughter hogs, he was assessed a household per capita slaughter tax.

(2) **Mandatory Bearing of Burdens.** An example of mandatory bearing of burdens was setting a number of newspaper and magazine subscriptions. In Wanshun Township in Nongan County, the assigned subscription quota for newspapers and magazines was 41,942 yuan, or an average of 4.4 yuan per household, they subscribed to 47 different newspapers and magazines. The peasants said that many newspapers and magazines were subscribed to, but they were little read. Most of them piled up in the village organization chief's house, or they were locked up in the village culture office or scattered about, and very few people read them. National treasury bonds and various insurance costs were not properly burdens to be carried by the peasants. Buying or participating in insurance should be voluntary, but in actual practice it was mandatory. In some places the peasants were willing to perform obligatory labor, yet were forced to pay money instead, and the value of labor was far higher than the value of labor at the prevailing cost accounting rate.

(3) **Money Withheld But Not Used.** In some townships and towns, the peasants contracted the veterinary care of their hogs, each household paying between seven and eight yuan each year, but they never saw a veterinary all year long. A 10 yuan deposit for veterinary care was paid for the treatment of a plow ox for one year, but nothing more was done during the year except to wash out the ox's mouth once. Officials did a lot of eating and drinking, but the payments were termed management and administrative fees. Ji'an City ruled that 70 percent of land resources fees were to go to the village, 20 percent to the township, and 10 percent were to be paid to the forestry unit. Actually, very little was returned to the village. Except for a small portion used to purchase tree seedlings, most of it was squandered, or used for eating and drinking. The peasants said with a sneer: "We paid a social public order fee, but we don't have a feeling of security; the militia trains year after year, but we never

see the militia do quick marches; every year broadcast fees are withheld, but we do not know where the broadcasts are; we pay a cooperative medical care fee, but we still have to buy high priced medicine as usual when illness occurs." For various reasons, quite a few townships used the money withheld to pay taxes not otherwise paid to the state. As a result, some projects for which funds were withheld could not be carried out.

(4) **Arbitrary Exactions and Arbitrary Raising of Prices.** This shows up mostly in ad hoc items under countless names in addition to regular burdens. For example: Peasants in Fengcheng County who sold firewood were required to buy a firewood sales permit at 5 yuan per household. For cutting grass for use as fuel, a mountain base fee was collected of 0.05 yuan per bundle. A resources fee of 3 yuan was collected for raising a single sheep, with some townships and villages levying a 15 yuan charge. Tieling County required women to assist the province in building a women's hall, each person paying 0.50 to 1 yuan. The Haicheng City Women's Association issued children's and women's lottery tickets, in Gengzhuangzhen the quota was 80,000 yuan, or a 2 yuan per capita burden. In 1988 Guangji County levied a party membership subsidy of 0.09 yuan per capita. Other fees included a fee to repair the martyr's cemetery, and a fee to build a stage. When chemical fertilizer retail prices are set, they include shipping costs, yet many townships and towns require peasants to pay a chemical fertilizer shipping subsidy fee. The peasants are extremely dissatisfied about the reckless raising of prices of agricultural means of production. National parity price chemical fertilizer is available only for award sales linked to grain procurement and as fertilizer for disaster relief. Parity price diesel fuel is virtually unavailable. It can be bought only at a negotiated price, and a high price. The price for electricity in farming areas makes no distinction between electricity used in daily life and for production, and may be even more than double the price of electricity in cities. Agricultural pesticides for sale at parity price are even rarer. Moreover, the closer it gets to fertilization time, the time to fight drought, and the time when crop diseases and insect pests are worst, the higher go prices of chemical fertilizer, electricity, agricultural pesticides, and diesel fuel.

(5) **Too Heavy Withholdings.** After rural villages instituted output-related contract responsibility systems, the number of burdens increased with each passing year. Comparison of 1989 with 1979 showed increases in farming and forestry special product taxes applying to melons, fruits, and vegetables, slaughter taxes, education surcharges, teacher bonuses and subsidies in civilian-run schools, assessments for the pooling of funds to build schools, subsidies to needy households, planned parenthood fees, water resources fees, assessments for the pooling of funds to run enterprises, land adjustment fees, road transportation fees, land takeover fees, contract police public order fees, and fees for laborers performing obligatory labor service, etc. These individual fees rose as prices rose, and payment standards increased steadily.

The burden of education surcharges; civilian-run school teachers salaries, bonuses, and subsidies; book and newspaper fees; pooling of funds to build schools; school operating expenses, school dormitory maintenance; and purchase of teaching equipment rose abruptly becoming extremely high in some places and exceeding the peasants' ability to bear them. In Boluo, Xianning, Dongkou, Yixing, Wafangdian, Zhaoyuan, Guiyang, Wuqiao, and Zhangbei, these burdens amounted respectively to 33.04, 18.59, 17.56, 16.06, 14.56, 14.56, 14.54, 14.50, and 14.50. In most counties of Shandong Province, they were more than 10 yuan. For a peasant household of five, these burdens amount to tens or even close to 100 yuan.

Village organization cadres' wages rose year after year to the immense dissatisfaction of the peasants. They felt that since village organization cadres contracted land and had an income, what right did they have to take between 500 and 1,000 yuan in subsidies—the annual net income of a member of the rural population. Furthermore, some village organization cadres rendered few services for the peasants, simply implementing several tasks planned by higher authority. In some places, becoming a rural organization cadre was looked upon as a means to increase income. The organization head rotated each year, each household taking turns at making easy money.

The peasants felt that the requirement for 20 days of obligatory labor each year was set during the period of the people's communes, and that now that many farmland capital construction tasks were done by individual families and households, continuing to require 20 days of obligatory labor was too great a burden. In particular, when payment of money was required instead of performing labor, the burden fell even heavier on those able to work but who had no money.

Some places pooled funds to build schools, run enterprises, and build roads at large expense and great cost, requiring a large expenditure of funds and labor. They vied with each other to start these projects, and acted with undue haste. The peasants' burden for them was heavy, and particularly heavy in the year they were built. In some townships and towns that pooled funds to run enterprises, the enterprises lost money and went bankrupt because of mismanagement, the peasants investing their money and their work without deriving any benefit.

Some townships and towns, or even counties, failed to proceed from what the peasants could realistically bear, raising standards for the building of facilities, the peasants bearing the cost. One example was Ji'an City, which built pig sty and toilets meeting high standards. Lubu Village in Zhenxi Township, Tieling County was once a prosperous village, but now it owes the bank 70,000 yuan in loans, and 60,000 yuan in high interest loans to private individuals as a result of having gone in for "civilized streets," and "flower garden walls" in recent years. It pays an annual interest of 24,000 yuan for a per capita burden of 85.21 yuan.

**(6) Excessive Differential Between Parity and Market Prices of Staple Agricultural By-Products.** Survey statistics showed a differential of 22.265 billion yuan between parity and market prices for grain and edible oil that the state purchases at parity prices. This amounts to 25.89 yuan per capita, and thus a household of five bears a burden of 129.45 yuan. In addition, there are ad hoc price differential levies. For example, after Nongan County fulfilled its fixed contract procurement quotas for soybeans in 1988, it received additional negotiated price procurement quotas. Since the price differential between the negotiated price and the market price at that time was between 7 and 9 yuan per dan, the peasants were unwilling to sell. Thus, the peasants in the county had to subsidize the differential price by 620,000 yuan. After assigned procurement of hogs was abolished, Xisi Township in Haicheng City still remained responsible for the assigned procurement of 1,570 hogs in 1987. The price differential between the assigned procurement price and the market price was 70,000 yuan, or 2.80 yuan per person. In 1988, it was responsible for providing 2,000 hogs under assigned procurement, the price differential then being 120,000 yuan, or 4 yuan per capita. In addition is the subsidization of price differentials for vegetables and eggs.

**(7) Unsound Rural Financial System; Withholding and Use of Funds Is Not Revealed.** A survey showed that a substantial number of peasants did not know how much money had been taken from them, nor did they know what the funds taken were used for. They generally felt that the cadres had taken a cut, and this caused great friction between the cadres and the masses.

**(8) Individual Peasants' Feelings Greater About Change From Collective Indirect to Direct Payments.** The increase in the number of burdens carried, and the rise in the amount of money paid generated a mentality of disobedience.

### 3. Thoughts About Improving Control of the Peasants' Burdens

Peasants' burdens have a bearing on the beneficial relationship among the state, collectives, and individuals, and directly affect the smooth implementation of party and government rural policies. Solution of this problem will help the cadres and the masses work together wholeheartedly for the four modernizations, and create conditions for increasing reserve strength for the development of agriculture. Therefore, I recommend the following:

(1) In order to reduce the peasant's burdens, the state should enact legislation as quickly as possible to establish a peasant burden control system and legal process, decide on the responsible department and solve the present situation in which there are no guidelines to follow with regard to peasant burdens.

(2) Each department should look into the number of burdens that the peasants carry, the amount of money involved, and the methods used to get this money, define

the concept of peasants' burdens, and set detailed standards for all burdens that peasants assume and methods used to collect money from them.

(3) Improve both county and township, as well as village control over peasant burdens, and establish a financial affairs system.

#### Agriculture Ministry Official on Increasing Meat Supply

OW0505085790 Beijing XINHUA in English  
0810 GMT 5 May 90

[Text] Xian, May 5 (XINHUA)—Both China's grassland and livestock herds are expanding steadily, according to a recent national conference on grassland here.

An official of the Ministry of Agriculture said the country turned out 26.27 million tons of meat last year, up 1948 [figure as received] million tons over the previous year; 4.35 million tons of milk products, up 166,000 tons; and 7.19 million tons of poultry and eggs, up 243,000 tons.

According to a recent survey, China has 400 million ha of grassland, accounting for 40 percent of the country's total territory. Included are 310 million ha available for animal grazing.

The country has introduced advanced technology to pastoral areas to boost production of forage grass on 10.4 million ha.

The official said the boom in animal husbandry has greatly helped improve the living standard of the Chinese people.

According to the survey, the amount of meat per person on average was up from 8.9 kg in 1979 to 22.8 kg last year, and that of eggs was up from 2.4 kg to 6.3 kg.

#### Plans Made To Increase Meat Consumption

HK0505052890 Beijing CHINA DAILY in English  
5 May 90 p 1

[By staff reporter Gu Chengwen]

[Text] China aims to increase individual meat consumption by 1.3 kilograms annually by the year 2000.

Officials from the State Planning Commission say they are confident of the goal which depends on a consumption growth from the present 23.7 kilograms per year to 25 kilograms.

This means Chinese herdsmen and meat producers have to raise the annual meat production to 32 million tons by the next century. And 25 percent should be poultry, the officials say.

The consumption rise will be realized under the condition that the country's population increases below 15 million annually, officials in charge of animal husbandry

under the Commission say. Last year, meat production was 26 million tons and 20 percent was poultry.

Poultry production will be managed mainly by the State and collectives, leaving pigs to be tended chiefly by individual farmers. The farmers, however, are not encouraged to increase their pig stock.

This year and in the following years, governments at all levels will increase investment and solicit funds to expand and set up new poultry farms and efforts will be made to accelerate development of auxiliary industries.

The central government budget this year increases the share for meat production by 30 million yuan, a rise of 40 percent over last year. The rest of agriculture has only gained a 30 percent increase. Agriculture has been listed as the number one issue in the country's economic construction.

Pork which accounts for 80 percent of the meat produced in China, depends mainly on grain for sustenance, China's traditional staple food.

The fast growth of rural industries and big numbers of farmers leaving farming lands for cities is putting a heavier load on city administrators.

People will have to eat more protein. The State needs more wool, fur and leather to ease the pressure of imports.

But government officials noted as the grain produced still falls short of demand, China has to push up its grain production so as to promote animal husbandry and at the same time put more emphasis on encouraging the production of the type of animals that consume less grain.

State control over prices of meat and eggs has long been lifted.

The production of meat has maintained an annual increase rate of about nine percent over the past six years. Egg production has increased at a rate of 10 percent and milk at 11 percent.

Currently, a 341 million yuan methionine plant (methionine is an essential amino acid used as a food supplement) a 100 million yuan poultry oriented biological vaccine factory and a 100 million yuan State Fine Poultry Breeding Centre are under construction around Beijing and Tianjin.

The first project is to provide protein fodder for animal husbandry.

The State's plan is to accelerate the development of cattle, sheep and goats on the vast grasslands.

**Work Begins on New Chang Jiang Shelterbelt**

*OW0705230590 Beijing XINHUA in English  
0752 GMT 7 May 90*

[Text] Beijing, May 7 (XINHUA)—China has now started to build Yangtze River [Chang Jiang] shelterbelt system, following construction of the "three north green great wall" across 13 northern provinces. Gao Dezan, minister of forestry, said the project, targeted at 145 counties in nine provinces along the upper and middle reaches of the Yangtze River, is intended to increase forest coverage and curb soil erosion.

China plans to increase the forested area by 20 million hectares over a period of 30 to 40 years. The entire project falls into two phases, with the first running from 1990 to the year 2000, according to the minister.

By the end of the decade, when the first phase is completed, Gao said, the forested area will have increased from the present 6.7 million hectares to 13 million hectares and forest coverage will have increased from the present 20 percent to 40 percent.

The project will curb soil erosion and provide an extra five billion yuan in income for local farmers, the minister said.

The area drained by the Yangtze River, the longest in China, is home to one-third of China's population. The area's industrial output value accounts for 40 percent of country's total and its agriculture output value, 34 percent of that of the country.

**Sugar Area, Imports**

*40060047E Beijing JINGJI XIAOXI in Chinese  
24 Mar 90 p 1*

[Summary] In 1989 the sugar crop area was about 20 million mu, a decline of 2.8 million mu from 1988. According to Ministry of Light Industry estimates, sugar output during the 1989-1990 period will be 4.3 to 4.4 million tons, a decline of 500,000 to 600,000 tons from 1988-1989. Due to a shortage of foreign exchange, China will only import 700,000 tons of sugar from Cuba.

**Anhui Hybrid Rice Area**

*40060047B Hefei ANHUI RIBAO in Chinese  
23 Mar 90 p 1*

[Summary] In 1990 the planned hybrid rice seed area in Anhui Province is 170,000 mu, an increase of 57,000 mu over 1989. The planned hybrid rice area is 13 million mu, an increase of 1 million mu over 1989.

**Guangdong Fisheries See Rapid Growth**

*HK0705084590 Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 5 May 90*

[Text] In the first quarter of this year, Guangdong's fishery production grew rapidly, with its total output

reaching more than 0.36 million tons, an increase of 11.3 percent over the same period last year.

The fishery production output of Shantou, Yangjiang, and Maoming in Guangdong Province increased by more than 20 percent in the first quarter of this year.

Moreover, Guangdong's aquatic products prices also tended to stabilize and dropped a bit in the first quarter of this year.

Thanks to the continued development of the Beibuwan Fishing Zone, Guangdong's fisheries also witnessed a substantial increase in economic results. In the first quarter of this year, 191,600 tons of ocean fish were caught in Guangdong, a 13-percent increase over the same period last year.

In the first quarter of this year, Guangdong's seawater and freshwater aquatic breeding industries saw increases of 22.5 and 8.1 percent respectively over the same period last year.

**Heilongjiang Flax Industry Faces Raw Material Shortage**

*90CE0163B Harbin HEILONGJIANG RIBAO in Chinese 17 Mar 90 p 2*

[Article by correspondents Jiang Changkuan (1203 7022 1401) and Fan Xinzu (5400 2956 4554): "Prevent the Flax Industry From Sinking Into a Situation in Which It Lacks Essentials"]

[Text] Flax is a resource in which Heilongjiang Province enjoys dominance, and is the main production base in China for both flax and manufactures made from flax. Today it accounts for approximately 85 percent of both China's flax growing area and its output, and both the number of linen yarn spindles in operation and linen output are respectively 80 percent and 90 percent of the national total. In 1988, the province's flax industry produced an output value of 300 million yuan, generated 115 million yuan in profits and taxes, and earned \$57 million in foreign exchange from exports, accounting for 43 percent of the total foreign exchange earnings of the province's textile industry.

This dominance is in danger of being lost.

In 1989, the planned flax area for Heilongjiang was 1.3 million mu, but the actual area planted was 716,000 mu. Statistics as of the end of 1989 showed 200,000 tons of crude flax in the warehouses of 21 state-owned flax raw materials plants. On the basis of the production capacity of the province's 71,000 linen yarn spindles, the current supply of flax in storage can satisfy requirements for only one year. In 1991, the province will have a total of 99,000 linen yarn spindles in operation requiring 220,000 tons of flax. To meet consumption needs, 1.2 million mu of flax should be grown. However, the provincial flax company estimates that only slightly more than 700,000 mu can be planted. If things go on this way, the province will have a severe shortage of flax

raw materials in 1991, and the flax industry is facing the danger of not having the essentials it needs.

Not long ago, a report said that the province had an oversupply of flax raw materials that factories could not use up in two years. This was the case in a small number of places, but not the case for the province as a whole.

There are four reasons for the inability to plant sufficient flax:

1. Profits from the growing of flax are low. For more than 10 years, the state procurement price for flax has been adjusted 8.16 percent lower than for grain, yet costs in growing flax went up every year. In the spring, flax is hurt by dry weather, in the summer it is hurt by soggy soil, and the risks are great. In addition, scientific and technical progress has been slow in the flax farming industry, and the growing of flax in small scattered plots also makes machine farming difficult. For these reasons, income per unit of area of flax is lower than for other crops, so it holds no attraction for the peasants.

2. Pertinent policies have not been implemented, and the peasants cannot be sure of having the conditions needed for growing flax. In 1987, the provincial government ruled that all land used for the growing of flax within plan was not to be held responsible for fixed grain procurement quotas. There were many problems in carrying out this policy. In 1988, only eight of the 21 counties in the province in which state-owned raw materials plants are located carried out this policy. In addition, no special loans were granted for the growing of flax, and the kinds of chemical fertilizer supplied were not right, and the amounts were insufficient.

During 1989, it was a common practice to "issue IOU's" because of the shortage of funds for the state purchase of flax, and peasants complained.

3. Many different units purchased flax seeds, so there was a serious shortage of seeds for production. In 1984, after restrictions were removed on flax seeds as a lesser oil-bearing crop, some units and individuals bought up flax seeds since a profit could be made from crushing them to produce oil. In Lanxi County alone, more than 80 collectives and individuals operated small oil pressing plants. Approximately 5,000 tons of flax seeds were used each year for oil, accounting for 20 percent of the province's total annual flax seed production.

The buying up of flax seed by so many also led to price turmoil. Regulations called for a procurement price of no more than 0.9 yuan per kilogram, but some oil pressing plants openly purchased them at 1.46 to 1.50 yuan per kilogram. The shortage of flax seeds in 1990 is attributable to this situation.

4. Peasants in some counties lack experience in growing flax, and the technical guidance that flax plants provide the peasants is less than needed. Low flax output, poor quality, and low income are also reasons that the peasants do not want to grow flax.

Spring has now returned, and the farming season is impending. Units concerned should solve these problems quickly to safeguard the province's dominance in flax.

#### Henan Corn Seed Area

40060047A Zhengzhou HENAN RIBAO in Chinese  
10 Apr 90 p 1

[Summary] In 1990 the hybrid corn seed area in Henan Province will be 400,000 mu and will provide 60 million kilograms of seed, a 100 percent increase over 1989, and is sufficient to cover the 30 million mu corn area.

#### Jiangsu Oil Crop Area Declines

40060047F Beijing ZHONGGUO TONGJI XINXIBAO  
in Chinese 19 Mar 90 p 4

[Summary] At present, the area sown to rape in Jiangsu Province is 6,789,000 mu, a decline of 92,000 mu or 1.4 percent from 1989. In 1990 the oil crop area will be about 8,650,000 mu, and the oil output target of 1.2 million tons will not be met. One reason for the decline is that procurement prices for grain and cotton have increased, but oil crop prices have decreased.

#### New Policies To Spur Jiangxi Cotton Production

90CE0163A Nanchang JIANGXI RIBAO in Chinese  
20 Mar 90 p 1

[Article by correspondent Tao Guofang (7118 0948 5364): "New Preferential Policy for Province's Cotton Production Supports Cotton Production, Arouses Cotton Growing Peasants Interest"]

[Text] According to information obtained from the provincial cotton work conference, to support cotton production and arouse the interest of cotton growing peasants during 1990, in addition to carrying out the State Council ruling that raises the procurement price of cotton from 236.42 to 300 yuan per 50 kilograms, some new preferential provincial policies are to appear.

These preferential policies are: Beginning in 1990, the method for purchasing cotton seeds will be readjusted again. Once a county fulfills its fixed contract procurement fats and oils quotas, all restrictions will be removed from cotton seed procurement; the pre-purchase down payment interest subsidy for cotton will be increased from 0.60 to 0.70 yuan per dan of ginned cotton turned over to the state, and the cotton technical improvement allowance will be increased from 0.30 yuan to 0.50 yuan per dan of grade 1 to 4 ginned cotton. Agricultural banks will provide loans of from 40 to 60 yuan per mu of cotton fields.

To improve production conditions and increase reserve strength for cotton production, the provincial government also decided that, beginning in 1990, approximately 10 million yuan is to be provided each year for cottonfield water conservancy construction. This

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arrangement is to run tentatively for three years. Funds are to be used specifically for the transformation of existing cottonfield water conservancy facilities in key cotton growing areas. Additionally, consideration is being given to building water conservancy facilities for new cotton fields, and all prefectures, cities, and counties are asked to provide matching funds for use in cotton-field water conservancy construction.

### **Centralized Management of Farm Supplies in Liaoning**

*90CE0021A Beijing JINGJI GUANLI [ECONOMIC MANAGEMENT] in Chinese No 1, Jan 90 p 15*

[Article by Zhang Minhua (1728 3046 5478) and Mou Fengjing (3664 0023 0079); "Protect 'Centralized Management' With 'Centralized Control'—Investigation of Liaoning Farm Supply Management"]

[Text] Liaoning province obtained rather good results from its decision to adopt a "1-2-1" farm supply centralized management method and protect it with "centralized control."

At the beginning of 1989 the Liaoning provincial government determined a "1-2-1" centralized management method for farm supplies throughout the province; namely, "one single channel, two levels of wholesaling, one single retail sale, make certain of the dual approach, and clearly marked prices." In concrete terms, this means the supply and marketing cooperative single channel, the province and county two wholesale levels, and the grassroots single retail level. The so-called single retail sale means goods can only be sold a single time no matter what the source. Reselling is not allowed even if farm supply units are allowed to manage a portion of their supplies according to government policy. The so-called final end to multiplicity means clearly marking prices and putting an end to the dual tier of pricing upon leaving the factory and for sale. Violators shall be dealt with severely.

At the start of farm supply centralized management, Liaoning ran into a series of new contradictions. The most prominent follow:

1. The contradiction between industry and commerce. Prior to centralized management, industries had rather large leeway in adjusting farm supplies and production materials. Price fluctuations were also quite large. After centralized management, enterprises had rather limited leeway. For example, besides retaining a small amount of fertilizer to live on, large chemical fertilizer enterprises cannot independently market overproduced chemical fertilizer. Therefore, enterprises have a cold and indifferent reaction to centralized management. They have little desire to increase output. In some enterprises there is still a tendency to give priority to retaining fertilizer to live on or turning products under the plan into higher sale-priced products outside of the plan.

2. Friction between commerce and agriculture. In recent years in the process of applying and popularizing new techniques, many of Liaoning's rural technology promotion departments have managed some ancillary chemical fertilizers and agricultural chemicals. Following centralized management, "selling chemicals" came to be regarded as an illegal activity. It has been difficult to continue the work of grassroots level technology promotion stations. Peasants who gain from farm science and technology services have reacted strongly.

3. Regional conflicts. After centralized management, the state raised standards for linking up grain and fertilizer, but due to limitations on the total volume of farm supplies, noncommercial grain producing regions have lower taxes on the total volume of fertilizer produced, causing conflict between commercial grain producing and non-commercial grain producing regions. For example, after the city of Dandong introduced centralized management, the commercial grain producing region of Donggou county increased mixed fertilizer production by more than 10,000 tons while the three counties of Kuandian, Fengcheng, and Xiuyan reduced production by the same amount. Peasants have large grievances on this point.

Another problem difficult to disregard is this: Grassroots supply and marketing cooperatives throughout Liaoning generally implemented contract management responsibility systems, leasing systems, and management by resale to individuals. Some supply and marketing cooperatives still have serious short-term behavior such as higher sales prices and repeated illegal reselling, possibly in effect turning the specialized management of some areas into "specialized corruption."

In order to enhance centralized management, one level of government after another has set up work coordination groups for farm supplies. Relevant departments in industry and commerce, pricing, banking, taxation, finance, and transportation that participate in coordinating the small groups have worked closely together and adopted strong measures. Each shares responsibility and is closely connected to make for a smooth unfolding of centralized management under the scope of centralized control.

1. Under the "one-two-one" scope of management formulated by the provincial government, through the method of "divide foreign exchange according to the way it is earned," Liaoning's farm product management resolved well the contradiction between industry and commerce and commerce and agriculture. The so-called "according to the way it is earned" refers to farm supply producing enterprises (mainly products of large chemical fertilizer plants). Except for allowing their self-run units to produce a small quantity of fertilizer to live on, all other surplus fertilizer produced is turned over to farm supply managing departments. Management departments use preferential prices to settle accounts on this portion of chemical fertilizer. There is a restriction on the portion readjusted by enterprises themselves, in that

units which import the fertilizer can only use it themselves. They are not permitted to let it change hands and be resold. The so-called "divide foreign exchange" refers to the formation of agricultural and commercial bodies by farm supply departments and agricultural science and technology departments in order to link together the material supplies of the management departments with the guiding services of farm technology departments. In some places where farm technology services cover large areas, with the approval of coordinating groups above the county level, they can wholesale a certain amount of farm technology extended ancillary supplies managed by the county. They can sell them once to peasants but they must strictly manage prices.

2. Unite inspections with making reports. Prevent management departments from transferring prices and non-management departments from meddling in management. In many places they have set up farm supply management reporting stations and report boxes to motivate peasants to engage in supervision.

3. Increase a thorough understanding of specialized management work of agricultural funds, so that the peasants can understand how it works. First-level units in villages including Shenyang, Jinzhou, and Tieling have pasted up honor rolls of those linking chemical fertilizer distribution. Some villages have created some management methods that have won the people's hearts. Tile roof shops in the cities implemented a new method for registering chemical fertilizer supplies. After peasants buy chemical fertilizer they sign their names and imprint their seals on a supply register. Inspection departments can know the situation at a glance by merely looking at the supply books. Many rural areas in the main commodity grain producing region of Tieling county have linked up management work with improving the contract management responsibility system, signing "three-in-one" contracts with peasants. Contracts not only clearly indicate crop planting plans for individual peasant households and purchasing tasks, but also clearly show link up farm production supply quantities and supply times.

4. Adopt practical steps to reconcile farm supply management departments. Inadequately prepared supply and marketing departments have greater difficulties because of tight funds and credit and the peasants' generally great expectations of newly begun management work. Many cities and counties are striving to increase production and dig up resources to ease and solve management departments' worries and problems. For example, in 1989, the city of Shenyang allocated \$5 million to import farm supply raw materials. At the same time it gave preferential guarantees on funds, electricity, and raw materials to farm supply producers. The Shenyang government allocated 11 million yuan to stabilize farm supply prices due to import raw material price inflation. This not only gave the peasants material benefits but also rescued farm supply management departments.

### Tibet's Large-Scale Development Plan Reported

HK0405120490 Beijing RENMIN RIBAO in Chinese  
22 Apr 90 p 2

[Report by Lu Xiaofei (4151 1420 7378) and Liu Wei (0491 0251); "Large-Scale Agricultural Development Program Initiated in Tibet"]

[Text] The plan for exploiting resources and developing the economy in the middle valley of "three rivers" in Tibet was approved by the state's relevant departments and experts in Beijing several days ago.

A large-scale comprehensive agricultural development program in the history of Tibet has thus been initiated.

Situated in the hinterland of Tibet, the middle valley of the "three rivers" (the Yarlung Zangbo Jiang, Lhasa He, and Nianchu He) is also called Tibet's "Golden Triangle." It is the political, economic, and cultural center of Tibet. It covers an area of 6.57 million square km containing 18 counties and cities (districts), and has a population of 764,200 people, about one-third of Tibet's population; it produces 53 percent of Tibet's total grain output. With over 2,000 hours of sunshine a year, it is rich in luminous energy resources; with a water power deposit of 5.94 million kilowatts, it has enormous potential for development; earth surface areas with apparent water heat activities [shui ri huo dong di biao xian shi qu 3055 3583 3172 0520 0966 5903 7359 4355 0575] have so far been discovered in 53 places; it has 1.51 million mu of cultivated land and another 1.16 million mu of barren land suitable for reclamation; it has about 2 million mu of forest resources which, due to energy shortages, are being reduced at the rate of 100,000 mu a year; although the grass in this valley is low in yield and good in quality, the grass land has degenerated as a result of seasonal changes, and the contradiction between grass and livestock is acute; of the 37 mining areas discovered, the deposits of 17 have been ascertained and the chromite deposits, estimated at 3.9 million metric tons, account for 40 percent of the country's total.

The plan includes over 50 development projects which will benefit the people of Tibet, including water conservancy projects and crop farming. Implementing the plan calls for building four major bases, namely, commodity grain, non-staple food processing, textile and other light industries and handicrafts, and scientific and technological popularization. It will also be coordinated with the 3357 comprehensive agricultural development project now under way in Lhasa and the Yamzho Yunco power station, as well as the projects listed in the Eighth and Ninth Five-Year Plans. It is estimated that after five years of development, grain output will increase by over 45 million kg, meat by 8.8 million kg, butter by 470,000 kg, and electric power by 69 million kilowatts.

This plan was designed and completed by the Qinghai-Tibet Plateau Inspection Team of the Academy of Sciences. Having entered Tibet many times, the 40-plus young and middle-aged experts taking part in this work have a profound understanding of the natural resources in Tibet.

At the evaluation and demonstration meeting held from 12 to 14 April, experts from relevant departments of the State Planning Commission, the Ministries of Agriculture, Water

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Resources, Forestry, and Energy, and the China International Engineering Consulting Corporation, along with leaders and experts from Tibet's competent departments, agreed that it is of strategic significance to take the middle valley of the "three rivers" as a breakthrough point in promoting the all-round development of Tibet's economic construction. Proceeding from the reality that Tibet's level of productive forces is generally low, and basing itself on rational and comprehensive exploitation and utilization of natural resources, the implementation of this plan will lay a good foundation for the future development of Tibet.

**Shandong Increases Oil Procurement Prices**

40060047C Jinan DAZHONG RIBAO in Chinese  
18 Mar 90 p 1

[Summary] Beginning 1 April the procurement price for 50 kilograms of shelled peanuts in Shandong Province will increase from 76.80 yuan to 93.50 yuan; 50

kilograms of unshelled peanuts 54.10 yuan to 67.80 yuan; 50 kilograms of peanut oil 183.90 yuan to 231.00 yuan; 50 kilograms of semirefined cottonseed oil 125.00 yuan to 163.00 yuan; and 50 kilograms of refined cottonseed oil 145.50 yuan to 190.00 yuan. The wholesale price of rapeseed oil in all areas will increase from 158.40 yuan to 207.40 yuan per 50 kilograms; soybeans 34.50 yuan to 45.00 yuan; and soybean oil 165.00 yuan to 215.00 yuan.

**Shandong Piglet Prices Up**

40060047D Jinan DAZHONG RIBAO in Chinese  
25 Mar 90 p 2

[Summary] At present, the average price for piglets in Shandong Province is 2.74 yuan per kilogram, a 5.4 percent increase over the previous period.

**Discussion of Invalid Economic Contracts**  
*90ON0355A Shanghai FAXUE [LAW SCIENCE MONTHLY] in Chinese No 1, 10 Jan 90 pp 29-31*

[Article by Li Jiling (2621 3444 6875): "On Invalid Economic Contracts"]

[Text] *This article maintains that the Economic Contract Law has been in effect for seven years, but invalid economic contracts are still a common occurrence, and they have a definite effect on the socialist economic order. Therefore, the relevant departments must take effective measures to prevent invalid contracts; enforcement departments should take a serious attitude, particularly toward international law-breaking that is subjectively very pernicious, and they need to go after and recover payments in arrears, fines, and other economic and legal sanctions. Those who commit the crime of fraud should be investigated to affix criminal responsibility.*

An economic contract is a legal measure for different parties, in their relations of commodity production and commodity exchange, to coordinate and self-regulate the economy; it is a legal act to determine economic relations; and it is a legal instrument for promoting the development of productive forces. Whether an economic contract has legal validity is related to the premise of whether it can perform its function. In recent years a large number of invalid contracts have pounded the economic contract system and jeopardized the economic order; and they are a part of what is being improved and rectified.

The identification and handling of invalid economic contracts have a very strong legal nature and policy nature, which will now be tested and explained.

**The Types and Contents of Invalid Economic Contracts**

Although the types of invalid economic contracts stipulated by the "Economic Contract Law" cannot be delimited, it provides a legal basis for the identification by contract management organizations and judicial practice of invalid contracts. In practice, how to correctly identify invalid contracts frequently leads to disputes. The types of invalid economic contracts are:

1. Contracts that exceed the business scope. The business scope of an enterprise must, first, conform to the provisions of the state's laws and policies; and must, second, suit the funds, site, equipment, technical forces, and working personnel of the enterprise. In the "Regulations on Corporation Registration and Management," Article 13 states "the enterprise as a corporation should engage in business activities within the business scope of the approved registration," and a contract that violates this provision and exceeds the business scope is invalid.

2. Contracts that run counter to business form. An enterprise's business form, like its business scope, needs to be approved. What is stipulated as wholesale cannot

be retail; what is stipulated as retail or sold on commission cannot be wholesale or self-supplied and self-marketed.

3. Oral contracts. An oral contract in which a part is implemented, but about which the two parties dispute the main provisions and that is impossible to clarify, should be regarded as an invalid contract. If the two parties do not dispute the main provisions of the contract, and the purpose of the contract does not run counter to the state's laws and policies, it may be regarded as a valid contract, but it is restricted to a small business or processing contract.

4. Contracts that exceed the agent's jurisdiction. These are mainly: a) Although it is a contract in which the agent is entrusted with regard to the types, specifications, or prices of the goods, the agent does not meet the demands placed on an agent, and without authorization concludes the contract. b) A contract in which, without being entrusted, the agent takes an introductory letter and a contract, both with blank spaces, of one party and, posing as that party or another party, signs them.

5. Contracts signed by a nonindependent accounting unit that does not qualify as a corporate person or by an economic organization that is not registered as being engaged in industry or commerce. This is a case in which the principal party is not qualified.

6. Contracts concluded for the purchase of fake, inferior commodities or imitation commodities. Producing and selling imitation, fake, or inferior commodities in itself is an invalid contract under Article 7, Section 1, Item 1 of the "Economic Contract Law."

7. Contracts that run counter to the state's policy and plan. These are mainly contracts that are concluded to purchase important means of production and durable goods for which the market is tight and that state policy stipulates are not permitted for free business, contracts that have not been handled and reported to a higher level in accordance with the state's stipulated procedures for capital construction, and contracts that are acknowledged to be invalid because they run counter to the state plan.

8. Invalid joint venture contracts. If corporate person-type joint venture contracts have not been reported to and approved by the factory's administrative and management organizations, or if the two parties do not have the capability to implement them, then these contracts are invalid. If partnership-type joint venture contracts have not, according to regulations, been reported to and approved by the higher higher level and do not have a valid business permit, or if a contract-type joint venture contract exceeds the business scope of the joint venture itself, or if the contract is used to conduct illegal activities, then in all cases they are invalid joint venture contracts.

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9. Invalid mediation contracts. There are mainly cases in which some "tertiary industries" of factories and enterprises are, without approved "advice" and "information," deemed equivalent to the relevant mediators and engage in mediation and introduction; and some cases are those in which the mediation is clearly fraudulent and is done to get illegal profits.

10. Invalid technical and patent contracts. These are mainly of four types: First, an individual turns a professional technological result into a nonprofessional technological result and then transfers its possession; or a unit turns a nonprofessional technological result obtained by scientists and technicians into a professional technological result and then transfers its possession. Second, there is illegal monopoly of technology, that is, a technological contract that is concluded so that one's original technology will not be replaced and by which technological progress is blocked. Third, there is the contract concluded by an authorized third party, for a person without patent rights to get a permit for a product, or a contract is concluded that permits, without authorization, another party to use a patent on a joint invention or creation. Fourth, a contract is signed that, by concealing the true situation, constitutes a swindle and a violation of law and that permits another party to use a patented technology.

11. Invalid architectural and design contracts. On the architectural market there have appeared many concluded contracts that violate the state's stipulated procedures by being of unproven design, unproven construction, and over contract. These are all invalid contracts.

12. Concluded contracts that contain swindles and bribes. As for contracts in which there are bribes, if the bribes just facilitated the concluding of the contract and did not adversely affect its content, then the contract may be affirmed to be valid, and the act of bribery will be handled separately; if the act of bribery causes the purpose of the contract—in specification, price, quantity, or the allotted time for fulfilling the agreement—to run counter to the desires of the representatives or to harm the interests of the parties concerned, then the contract should be affirmed as invalid.

13. Contracts that break local laws and regulations. Local laws and regulations that do not conflict with state laws and that possess a regional legal effect are clearly the legal basis for handling economic disputes. If concluded contracts violate local laws and regulations, they are likewise invalid contracts that break the law. For example: The Shanghai municipal people's government stipulated that contracts with a target of 10 million yuan or more and for which tenders are invited and submitted must be notarized before they become valid.

14. Contracts that break important formal conditions. Whether the contract form and the seal of a concluded contract meet demands are important formal conditions for the composition of a contract. When some contracts are concluded the contract seal is not affixed. Rather,

what is affixed is the department seal of a certain branch, which makes the contract invalid. Individual contracts must be differentiated into those that are completely invalid and those that are partially invalid, and this is determined by the degree and the scope of the invalidity. If the purpose of a concluded contract is to smuggle goods or contraband goods or goods of a business that are not permitted to be free, this contract, which fundamentally violates the law, is a completely invalid contract. If the purpose of the contract is lawful, and it only does not conform to the law with regard to its stipulation for the responsibility for fulfilling or not fulfilling agreements, then it is a partially invalid contract. In some invalid contracts, if a part's legal effect is not adversely affected, then this remaining part is still valid.

There is a difference between an invalid contract and a contract that is not tenable and that has been terminated. Speaking of an invalid contract as a contract *per se*, the agreements and acknowledgements by the parties concerned contain the important agreements and promises—the basic important conditions for the contract—are invalid in their legal effect. An untenable contract is one in which the parties concerned have only discussed its concluding, sometimes also signing a statement of intent, but in the end, because of a lack of consensus or another reason, the contract becomes untenable. This does not touch on the question of the legal effect of the contract's content and composition. A terminated contract is a contract in which one or two parties concerned demanded its termination, and after consultation and consensus it is terminated. A contract's legal effect and a contract's termination are two different issues; a contract without legal effect need not be terminated, and a contract that is not terminated is not necessarily a valid contract.

#### **Explanation of the Legal Effect of a Contract That Exceeds Its Business Scope**

Invalid contracts that exceed their business scope are a big family among invalid contracts, constituting about a third of them. Opinion is divided on whether a contract that exceeds its business scope is categorically an invalid contract. Some people think that, after the stimulation of the economy, a diversified economy with one industry made primary was proposed, and therefore, if the purpose of exceeding the scope of business is advantageous for stimulating enterprises and improving economic results, is not a business clearly prohibited by the state, and does not harm the interests of the state, society, or other people, then there is no need to define it as an invalid contract. This viewpoint overlooks the illegal nature of acts that exceed the business scope. The harmfulness of exceeding the business scope is mainly: 1) It is detrimental to macromanagement. When an industrial or commercial administrative or management organization examines and verifies an enterprise's business scope, it must consider, first, whether the enterprise has the corresponding business capability; and, second, whether, with regard to the business's profession, as reported by the enterprise, the regional distribution,

structure, and network are appropriate. If exceeding the business scope is stretched out, it will certainly seriously affect the state's management of industrial and commercial enterprises. 2) Exceeding the business scope will usually lead to the problem of exceeding business capacity. 3) It disrupts and harms the economic order. Occupations that transcend the business are always thought by the enterprise to be beneficial, desirable, and even highly profitable. Thus, the scope of the business that the state has stipulated that an ordinary enterprise must not engage in will be breached, and the enterprise will even resell at a profit and cheat on its sales, thereby damaging economic order. An economic contract that exceeds the business scope is an act that violates the Industrial and Commercial Management Law. The "diversified economy with one occupation made primary" that was proposed during the initial stage of stimulating the economy cannot be understood as meaning that all enterprises may have the occupations in their business that they please, and even less can it become a reason for "exceeding its business scope." In the period of improving the economic environment and rectifying the economic order, this point especially needs to be tightly grasped.

At the same time, it should be seen that the development of production and business changes with each passing day. An enterprise's business activities are also always affected by the state's economic policies, which proceed from the proper business or the suitable policy readjustment. These activities do not seek illegal profits, and they are advantageous for obtaining social and economic results. They are embodied in specific, temporary contracts that exceed the business scope, and their legal effect should be considered. This writer thinks that it is best to not define as invalid the following three kinds of contracts that exceed business scope: 1) Those that only incidentally exceed it. For example, a grain shop has not yet obtained approval for selling bread at par, but bread is a reproduction of grain and is good for the masses' life, so its sale should be permitted and supported. If a dispute over the grain shop's contract for engaging in the bread business arises, the contract's legal effect should be affirmed. 2) Those that exceed by evolution. Some sundry shops are approved for dealing in brooms, but are not yet approved for dealing in vacuum cleaners, which are a commodity renewal or replacement. Brooms and vacuum cleaners are both cleaning and sweeping instruments. If the sundry shop is to meet the market demand and there does not exist a question of seeking illegal interests, this kind of exceeding the scope should be approved, and at the same time the enterprise should be spurred to go through supplementary legal procedures. 3) Exceeding scope by switching product type. This "exceeding the scope," first, is a case in which the enterprise seeks to survive while adapting to the state's readjustment of the economy, and it appears in the course of evolution; second, once the original products are returned to the market, the switching-output operation is finished, and so it is of a temporary nature; and, third, the exceeding of business scope that occurs when

products are switched for the country, the enterprise, and the people is not harmful, but rather is beneficial and, therefore, it is inadvisable to regard it as categorically invalid.

#### Causes of Invalid Economic Contracts

1. There are causes in the contract system aspect. These are mainly a lack of basic knowledge about signing contracts and a lack of understanding about the main parts and important conditions of a tenable contract, the rights and interests of an agent who signs a contract, as well as the scope of the business that the contract must conform to. In some cases, the legal consciousness is poor, not regarding a concluded contract as a legal act, but rather as an arbitrarily signed act. Some economic departments do not manage contracts strictly. They turn a blind eye to contracts that exceed the business scope, which regularly appear, and do not take effective measures to prevent them.
2. There are causes in the business ideology aspect. For example: Only seeking money and even trying to get illegal profits, disregarding law and discipline, doing whatever business brings the biggest profit or boring through gaps in reform and stimulation to conclude invalid contracts that violate policy.
3. There are causes in short-term acts. Persons engaged by contracting parties, for the sake of their own economic interests, no matter what the state's laws and policies, arbitrarily sign invalid contracts abroad.
4. There are causes in the lax enforcement of the law. When dealing with invalid contracts, law enforcement agencies generally adopt the measure of "returning property" and do not adopt the punitive measures that they should adopt of taking over, fining, and detaining. Sanctions are not strict, and the law enforcement agencies seem to be feeble and powerless, thereby weakening the legal effect of curbing the proliferation of invalid contracts.

#### Dealing With Invalid Economic Contracts

The "Economic Contract Law" and the "General Rules of Civil Law" stipulate that invalid contracts are to be dealt with as follows: Returning the property is the basic demand in dealing with invalid economic contracts, and it is a legal measure to clear away the property consequences caused by invalid contracts. It is not a punitive measure. The specific ways of "returning property" have not yet been stipulated in legislation. Some people think that, out of consideration for the strict enforcement of the law, the original property should be returned. People experienced in judicial practice think that, in principle, the original property should be returned, but that special circumstances require that we proceed from reality. For example, for fresh commodities that cannot be stored, marked goods that are not the original ones are substituted. If there are communication and transportation difficulties in effecting the return, and marked goods are legally obtained by a third party, so that the original

goods cannot be returned, then a return in value may be effected. With regard to marked goods that are counterfeit or inferior commodities or detrimental foodstuffs, which cannot be marketed, in accordance with the relevant laws and regulations, they should be confiscated, destroyed, or dealt with by the consignee under the supervision of the relevant local department.

Compensation, after the return of property, is the economic responsibility borne by the party at fault toward the injured party. Article 16 of the "Economic Contract Law" states: "If both sides are at fault, then each bears corresponding responsibility." In this regard, it cannot be understood as "average shared responsibility" or "each bearing his own losses." Rather, the contracting parties should, in accordance with the primary and secondary responsibilities and the seriousness of the case, separately bear the appropriate share of the responsibility for the economic losses.

**Takeovers.** Article 134 of the "General Rules of Civil Law" stipulates that the "people's courts, when trying civil cases," "can reprimand and direct that a statement of repentance be signed and that the property from illegal activities and the illegal gains be taken over; and they may, in accordance with the provisions of law, impose a fine or a period of detention." A takeover is appropriate in a suit over a given harmful invalid contract, and means taking over the actual illegal gains of the party concerned.

Payment on demand—this punitive measure—is stipulated differently in Article 16 of the "Economic Contract Law" and in Article 61 of the "General Rules of Civil Law," mainly as follows: First, as to the suitable object. The former stipulates that, with regard to contracts that run counter to the interests of the state or to the interests of society and the public, done on purpose by the two sides, "there should be a payment on demand of the property already obtained by the two sides or agreed by the two sides to be obtained"; the latter stipulates that there should be a suitable payment on demand if "the two sides collaborated with malice." Second, as to the agreed-on gains that are paid on demand. On this point the former makes clear provisions, but the latter does not mention it. Third, on the jurisdiction of property that is paid on demand. The former stipulates that it "reverts to

the national treasury," but the latter stipulates that it "reverts to the state and the collective owner for return to the third party." This writer thinks that payment on demand is a punitive measure that is more severe than a takeover. It should be applicable not to persons with ordinary intent, but rather to persons who act out of a malignant psychology and cause fairly serious harmful consequences. The payment on demand should include the agreed-on gains. In this way not only can it be distinguished from a takeover, but also it will be a sanction imposed on those invalid contracts that, although not yet really taking effect, maliciously run counter to the interests of the state or the interests of society and the public. If the property paid on demand is returned to or made good for an enterprise or third party, what is left over after this should revert to the national treasury. The payment on demand at its maximum must not exceed the amount of the illegal profits obtained by agreement in the contract. In general, different circumstances should be regarded, and payment on demand should be made according to the proportion of the agreed-on amount.

**Fines.** More severe than a takeover, a fine can be used in conjunction with a takeover. It can also be used alone as a fairly severe and flexible punitive measure.

An invalid economic contract that constitutes the crime of swindling should referred to the relevant department for investigation to affix criminal responsibility.

To effectively prevent invalid economic contracts from harming the socialist economic order, first, we must regularly and conscientiously expose and reveal the harmfulness of invalid contracts, cite typical cases, handle matters in a vivid and dramatic way, explain the law by cases, expand the effect, draw serious attention, and create a powerful public opinion for not concluding invalid contracts. Second, we must enhance contract management, formulate measures to prevent the concluding of invalid contracts, sum up experiences, and take punitive measures against persons who conclude invalid contracts. Third, we must be adept at applying legal legal weapons, enforce the laws, with law enforcement agencies perform the functions bestowed by law, and, with regard to those invalid contracts for which punitive measures should be taken, not be soft, but display the awe-inspiring effect of the legal system.

## CENTRAL-SOUTH REGION

### Solutions to Funds Shortages in SEZ Colleges

90CM0129A Xiamen XIAMEN DAXUE XUEBAO: ZHEXUE SHEHUI KEXUE BAN [JOURNAL OF XIAMEN UNIVERSITY: PHILOSOPHY AND SOCIAL SCIENCES EDITION] in Chinese No 1, Jan 90 pp 57-61, 67

[Article by Cai Duqiao (5591 4648 1293) and Li Xixiong (2621 6932 7160): "Funds Shortages of Special Economic Zone Institutions of Higher Education Under Ministry and Commission Jurisdiction, and Remedies"]

[Text] By special economic zone [SEZ] institutions of higher education under ministry and commission jurisdiction is meant institutions of higher education physically located within special economic zones that are directly administered and funded by central government ministries and commissions concerned. Institutions of higher education in the five economic zones today include not only institutions of higher education administered and funded by special economic zone local governments, but also provincial institutions of higher education and schools under central government ministry and commission jurisdiction not administered and funded by special economic zone local governments. Since their sources and channels for funds differ, the funds situation differs for schools under different jurisdictions in different economic environments. A funds shortage exists in all institutions of higher learning today, being particularly glaring in the case of institutions of higher learning under central government ministry and commission jurisdiction. This article intends to take up only the funds shortage problem and remedies as they apply to institutions of higher learning under ministry and commission jurisdiction located in special economic zones.

#### A. Current Funds Situation

Everyone knows that the overall price level in economic zones is fairly high. Even though "Methods for Implementing Financial Reform in Institutions of Higher Education," which the State Education Commission and the Ministry of Finance jointly promulgated in 1985, provides for the adoption of an "overall designated quota plus a special subsidy" in authorizing expense budgets for institution of higher education annual education, the amounts vary according to different student courses, different levels, and different fields of study, taken together with the country's financial circumstances. And, even though corresponding measures were adopted with regard to institutions of higher education in special economic zones, nevertheless, since conditions in special economic zones are fairly special, payment of expenses also has special features, which are manifested in the following ways: First, the overall level of wages in special economic zones is fairly high. Special economic zones are located in fairly high category zones along the coast where base wage levels are fairly high and where

personnel expenses as a percentage of total expenditures are higher than in other than economic zones. Second, local living subsidies in special economic zone are greater. In the Xiamen Special Economic Zone, for example, various subsidies averaged 114 yuan per month per person in 1989. Third, the overall price level in special economic zones is higher. Special economic zone prices are part of a price system in which various prices coexist, including plan prices, fluctuating plan prices, and free prices, and the overall price level is higher than elsewhere. Fourth, special economic zones are located along the borders of the motherland, so the percentage of expenditures for travel expenses is higher than elsewhere. In short, special economic zones have high salaries, high subsidies, and high prices. Consequently, institutions of higher education located in special economic zones, particularly institutions of higher education directly funded by national ministries and commissions are markedly short of educational funds. For example, special economic zone institutions of higher education under certain ministries and commissions paid 7.23 percent more for education expenses in 1986 than in 1985, and they overspent every year from 1987 through 1989. Reasons for the shortage of education funds may be summarized as follows:

#### 1. Personnel Expenses as a Percentage of Education Expenses Are Higher Than in Other Institutions of Higher Education in the Country

Personnel expenses include wages, subsidized wages, staff member and worker welfare expenses, student loans, and differential subsidies. Given a constant total amount of funds for education, when the percentage of personnel expenses rises, funds become inadequate for other purposes.

Formerly, China had low wages and low prices for a long time, and welfare subsidies were also relatively small; consequently, personnel expenses as a percentage of education expenses remained at a fairly low level. In recent years, with steady rises in the people's standard of living and several wage readjustments, various subsidies have increased as a result of a rise in the price level. Therefore, personnel expenses as a percentage of education expenses have also steadily risen until they now account for between 40 and 60 percent of total expenses. For colleges in special economic zones under central government ministry and commission jurisdiction, the extent of increase has been even greater, approximately 60 percent. A survey shows that not only is the percentage of personnel expenses in institutions of higher learning under ministry and commission jurisdiction in special economic zones higher than in colleges not under ministry and commission jurisdiction in special economic zones, but they are also higher than in other institutions of higher education in China. The main reasons are as follows:

First, the structure of personnel wage levels in institutions of higher education under ministry and commission jurisdiction in special economic zones today is

higher than the structure of personnel wage levels in institutions of higher education not under ministry and commission jurisdiction. This is because the general school age is higher in institutions of higher education under ministry and commission jurisdiction, and the percentage of personnel holding high positions is greater, so the wage level structure is higher.

Second, for the same reason as above, the average age of professors, staff, and workers in institutions of higher learning under ministry and commission jurisdiction in special economic zones is higher, so the percentage of separated or retired personnel is higher than in other economic zone institutions of higher learning. Formerly, the expenses of retired personnel were paid for out of the local treasury; they were not a part of the schools' education expenses. After 1976, however, such expenses became entirely the responsibility of schools as an education expense, thereby increasing the percentage of personnel expenses.

Third, price levels in special economic zones are relatively high; thus, various forms of wage subsidies within the zones are also numerous. In the Xiamen Special Economic Zone, for example, not only is there a special economic zone subsidy, but also provincial and municipal subsidies and nearly 10 other subsidies that bring the monthly per capita subsidy to 114 yuan, which is more than the per capita monthly wage. Fairly high wage subsidies outside of special economic zones run only between 30 and 70 yuan.

## 2. Difficulty Finding a Source of Funds for Local Subsidies for Institutions of Higher Education Under Ministry and Commission Jurisdiction in Special Economic Zones

As was said above, a feature of the special economic zones is the fairly large number of local subsidies, such as the special economic zone subsidy, the main nonstaple foods subsidy, the grain subsidy, and so on. According to national regulations, the various subsidies that local governments provide beyond those that the national government uniformly prescribes, are to be paid equally to all local institutions of higher education that meet requirements. Local treasuries are responsible for allocating funds for subsidies at prescribed levels and standards. However, for various reasons, particularly the limited financial resources of special economic zone local governments, local governments usually do not fund institutions of higher education not under local administration. This makes it impossible to find a source of funds to provide subsidies to this category of institutions of higher education. All that can be done is to squeeze some additional funds from already extremely limited funds for educational purposes, managing with difficulty to provide subsidies that are properly the responsibility of the special zone local governments. Take, for example, Xiamen University in the Xiamen Special Economic Zone, which is directly funded and

administered by the State Education Commission. In 1988, various special economic zone price subsidies for staff members and workers in this school amounted to 94 yuan per capita, but only 27 yuan was approved for disbursement by the National Education Commission or the local government. There was no source of funds for the remaining 67 yuan. This also did not take account of additional student price subsidies. A total of 3.64 million yuan of subsidies for the year were unfunded, amounting to 15 percent of education-associated expenses for the whole year. Not only does the payment of these subsidies increase personnel expenses as a percentage of education expenses, but the failure to find sources of funds worsens the shortage of education funds. As special economic zone activities steadily expand, additional subsidies set by special economic zone local governments continue to appear (a 20 yuan fuel subsidy was added in 1989, for example), and this leads to a steady widening, and an increasing intensification of the gap in allowances for institutions of higher education under jurisdiction of central government ministries and commissions. This has become a problem urgently requiring solution.

## 3. Tremendous Rise in Official Business Expenses

Public business expenses are expenses that schools incur for regular activities such as maintaining instruction, scientific research, and administration. They generally includes travel allowances, postage and telecommunications expenses, office supply expenses, and water and electricity expenses. Ordinarily, official business expenses amount to five percent of the expenses of institutions of higher education. For various reasons, prices have risen tremendously in recent years, such as a rise in postage and telecommunications expenses, transportation expenses, the cost of books and paper, and official business travel subsidy standards. This has caused a tremendous rise in the office expenses, postage and telecommunications expenses, travel expenses, and water and electricity expenses necessary for teaching, scientific research, and administration. For example, the official business expenses of one school under central government ministry and commission jurisdiction amounted to 7.5 percent of education expenses in 1985, 8.1 percent in 1986, and 8.6 percent in 1988.

Institutions of higher education everywhere face an increase in official business expenses, but the increase in business expenses is even more glaring in special economic zone institutions of higher education under jurisdiction of central government ministries and commissions. This is because, first, prices in special economic zones are higher than outside of special economic zones; second, all the special zones are in areas of heavy tourist traffic where travel expenses are high; and third, there is a lot of out-of-province official business owing to the different jurisdictional relationships and extensive links of institutions of higher education under jurisdiction of central government ministries and commissions in the special economic zones with institutions of higher education throughout the country.

#### 4. Substantial Equipment Purchase Expenses

Institutions of higher education bear a twin burden for teaching and research, and apparatus and equipment are important means of labor in teaching and research. The modernity of equipment determines the efficiency and the level of teaching and research work. With advances in science and technology during the past several years, in particular, the steady improvement of research organizations in institutions of higher education, and the large-scale infusion of high-quality, precision, and sophisticated equipment on the research front in institutions of higher education, an increase in equipment purchase expenses as a percentage of total expenses remains a phenomenon common to all institutions of higher education. It is manifested more conspicuously in special economic zone institutions of higher education, in particular. This is because the special economic zones are located in forward areas along the coast where, formerly, state investment in institutions of higher education was relatively small, and where equipment and facilities for scientific research were rather scant. After their establishment, the special economic zones suddenly became windows on technology and knowledge for the whole country, and institutions of higher education under jurisdiction of central government ministries and commissions located in the special economic zones carried the twin burden of working on key national projects and providing support to the building of the special economic zones. This meant that institutions of higher education under jurisdiction of central government ministries and commissions in the special economic zones had to steadily augment their scientific research and teaching apparatus and equipment, bringing in high-quality, precision, and sophisticated equipment from elsewhere in the country and from abroad. Thus, equipment purchase expenses as a percentage of education expenses for special economic zone institutions of higher education under jurisdiction of central government ministries and commissions have always been higher than for institutions of higher education elsewhere in the country, generally by 20 percent.

In short, the serious shortage of funds for institutions of higher education under jurisdiction of central government ministries and commissions and the conflict between supply and demand have become a universal phenomenon that interferes with the development of education in special economic zone institutions of higher education. Increased subsidization of educational expenses has become a priority matter affecting the development of teaching and research endeavors.

#### B. Remedies

##### 1. Special Treatment of Special Economic Zone Institutions of Higher Education

First of all, the ministries and commissions concerned should have special policies with regard to special economic zone institutions of higher education under jurisdiction of central government ministries and commissions. These policies should take full account of the

special geographical location, the economic climate, and the higher percentage of personnel expenses in special economic zone institutions of higher education. They should take into consideration prices in the special economic zones and the availability of price subsidy funds for teachers, students, and staff personnel in institutions of higher education, "setting overall amounts" according to a local classification coefficient. Special economic zones should be separately listed, a "special economic zone special subsidy" category being established for special subsidy expenditures. This is the only way to make the "overall set amounts" more rational and "special subsidies" more realistic in order to ensure the applicability to universities in the special economic zones of the State Education Commission budget for educational activities. Second, efforts should be made to get financial support from governments at all levels in the special economic zones. Since special economic zone subsidies have a bearing on the personal welfare of the residents of special economic zones, as well as on social stability and unity, and have strong policy overtones, institutions of higher education under jurisdiction of central government ministries and commissions located in special economic zones have no choice but to provide the various local government subsidies to their teaching, student, staff member, and worker personnel. Thus, the central government should carefully instruct special economic zone governments to proceed from overall interests and act in the spirit of pertinent government regulations, applying equally to all institutions of higher education located in their jurisdiction all of the local subsidies that are in keeping with regulations, and they should promptly take responsibility for appropriating subsidies to them in accordance with local government subsidy limits and standards. Special economic zone institutions of higher education should also proceed from realities to designate the number of personnel being trained in special economic zones, and maintain liaison with special economic zone governments for close coordination in an effort to obtain local financial support.

##### 2. Strive To Improve Returns From Existing Outlays for Education

The most realistic and the most effective way for special economic zone institutions of higher education to manage existing outlays for education is to strive to increase returns from existing outlays. Returns include both macroeconomic returns and microeconomic returns from expenditures.

First is improvement of macroeconomic returns from expenditures for institutions of higher education. Institutions of higher education must uphold the four basic principles, adhere to the socialist orientation in school operation in drawing up development plans according to requirements for training "four haves" [siyou 0934 2589] personnel, establish specialties in a rational way, and base decisions on the needs of society. In the placement of personnel, the watchwords should be better staff and simpler administration, and optimization of

groups. Unless special needs warrant, the movement of personnel from personnel-surplus to personnel-short areas is to be done within the number of people on the existing table of organization, while simultaneously trying out a system for contracting total wages in order to control and conserve expenditures for personnel expenses. This is the only way to be able to send promptly to all national economic units the right numbers of various kinds of fairly high-quality specialized personnel possessing a high socialist consciousness and skills that match the work to be performed. It is also the only way to be able to ease the too-great conflict of personnel expenses as a percentage of total expenses.

Second is better school financial accounting in an effort to improve microeconomic returns from investment in school expenses. Financial work bears an important responsibility for improving a school's microeconomic returns from expenditures for education. This is because all expenditures for school education have to go through every financial unit's examination and approval during receipt and payment. Measures for increasing returns from all school expenditures also must be organized and implemented by financial units; and financial units must direct school mass campaigns for the management of financial matters. Therefore, good performance in school financial accounting work holds extremely important significance for the improvement of microeconomic returns from expenditures for education. Right now, school financial accounting work should address the following matters:

a. Better financial management and proper centralization of financial authority. Delegation of financial management authority for an expansion of grassroots-level decisionmaking authority is the proper direction for reform of financial management at institutions of higher education. However, the delegation of financial authority must be premised on leaders being thoroughly familiar with financial rules and regulations and having a grasp of basic financial management, as well as on qualified grassroots accounting personnel and the establishment in grassroots units of all necessary regulatory systems. Otherwise, the delegation of financial authority will create a decentralized and chaotic administration of funds, or may even lead to individual units opening their own bank accounts, infringement on the schools' interests, impairment of the regulatory system, and violation of financial and economic discipline. Ultimately, this will affect the smooth implementation of financial reform and create even greater expense difficulties. Currently, the above conditions do not exist in most institutions of higher education. Right now, state funding of the expenses of institutions of higher education, particularly in special economic zone institutions of higher education under jurisdiction of central government ministries and commissions, is seriously inadequate and cannot increase substantially within a short period of time. Thus, proper centralization of financial authority for the implementation of a "first-echelon accounting, second-echelon management" financial management

system is necessary. In particular, proper centralization of financial authority and implementation of a management system in which the person in charge of finances in units can personally examine and approve payments in accordance with the Central Committee policy of improving the economic environment and restructuring the economic order holds great significance for overall planning of the flow of funds that takes all factors into account and in the formulation of a rational disbursement system.

b. Active planning of the current year's overall financial budget. Scientific analysis of budget norms is the key to smooth budget implementation. Finance units should circumstantially and scientifically break down expense budget norms on the basis of the situation in grassroots units in conjunction with school development plans and sources of expense funds, assigning responsibility for implementation to the units concerned. The units concerned should draw up corresponding actions to ensure that the budget is not exceeded. The principle currently followed in budget planning is unified planning with due consideration for all concerned, some items retained and others curtailed. This means retaining personnel allowances, retaining necessary education and research expenses, and retaining logistic support, while further curtailing administrative expenses and the purchasing power of social groups.

c. Drawing up various expenditure standards for accounting supervision. Financial units should use pertinent national financial regulations as a basis and be guided by the special characteristics of special economic zone institutions of higher education in the formulation of various kinds of expenditure standards or fixed sums in order to have a basis for justifying and conserving on all expenditures. They should use accounting supervision to limit and halt all actions that violate financial and economic policies and ordinances in order to ensure the safety of education expenditures.

### 3. Trial Operation of In-School Banks, and the Use of Unbudgeted Funds for Compensation

Unbudgeted funds in institutions of higher education are funds not included in the national budget, the main sources of which are net income not included in the national budget that the institutions of higher education derive from their own receipts and expenditures; net income from transfers of teaching and scientific research achievements; net income derived from management or training commissioned by outside units and fees received from the operation of night school and correspondence courses; and net income received in payment for the services of logistics units such as hostels and motor transport units. In recent years, there has been a steady increase in unbudgeted fund income as a percentage of schools' financial income, to the point where it has become a major source of school income. Formerly, after it was divided up, each unit was allowed the income that it earned from providing services for a fee, individual units themselves distributing it. This produced poor economic returns. Better management of

such funds to improve their utilization efficiency can doubtlessly play a positive role in easing the tense situation between supply and demand for school education funds and promote development of school education and research endeavors. How can benefits from these funds be realized to the full? We believe that changing people's traditional ideas about using institutions' funds without payment, trial operation of banks in schools, and using economic methods to manage unbudgeted funds in order to improve their utilization rate is the best way in which to remedy the lack of funds in educational institutions. The mission of a school bank would be to concentrate the unbudgeted savings of all units in the school to make internal loans. Intramural banks would operate on the principle of paying interest on savings and collecting interest on loans. The specific method used would be as follows: First, the intramural banks would work together with financial units as two different units in the same group. Intramural banks would be a branch under jurisdiction of the financial unit in charge and be responsible to the personnel originally in charge of unbudgeted funds. The intramural banks' ledgers would replace the unbudgeted funds ledgers. Second, the source of funds would be the unbudgeted funds of all units. After all unbudgeted income that units in the school made was divided in accordance with national regulations, the portion belonging to the school would be deposited in a "school account" in the school bank. The portion belonging to the units that earned the income would be put into an "earning unit account" in the school bank. Third, loans would be made to scientific research and teaching units urgently in need of short-term funds. Fourth, final settlement certificates like those used in national banks would be produced by the schools themselves, their use limited to final settlements within the school. Savings interest rates would be set the same as for national banks, and interest rates on loans would be set flexibly according to circumstances. School-operated banks offer numerous advantages: 1) Concentrating idle funds scattered in various units within the school for the use of teaching and research units in urgent need of money, thereby playing a role in concentrating money and using money for school endeavors and promoting development of school research and teaching endeavors. 2) Regulating the flow of funds through stipulated credit conditions and flexible interest rates and the selection of those to whom loans are issued, thereby promoting better administration and management in all units in the school in a change from the former vying for funds, and thereby promoting the rational use of funds by all units for a decrease in both the seizing of funds and the sitting on funds for an increase in the funds' utilization rate. In order to even out unbudgeted funds in intramural banks, the banks can employ time differentials to provide credit funds to state banks in a planned way, thus enabling the schools' money to increase in value, while also being able to convert the interest obtained into loan interest for the schools. This will both even out school credit and benefit both the country and the people.

#### 4. Better Management of School Logistics, and Launching of Additional Campaigns To Increase Income and Reduce Expenses

First is better management of water and electricity. It is difficult to control payments for water and electricity in institutions of higher education today for two reasons—numerous collective dormitories and numerous common classrooms. Current administrative regulations for institutions of higher education stipulate that, except for a small portion of water and electricity expenses, which are to be borne by the students themselves, most are to be included as educational expenses. The solution lies in better control. For example, a control organization could be established to limit collective dormitories' use of electricity, with high fees collected for excess use. In general, undergraduates could be allotted 2.5 kilowatt hours per month and graduate students four kilowatt hours. On the basis of eight undergraduate students and four graduate students in each dormitory, a quota of between 16 and 20 kilowatt hours of electricity for illumination each month is sufficient. The method now in use at Xiamen University where collective dormitories have a "fixed quota of electricity, fees collected for amounts in excess of quota" is worth looking at. In 1985, that university set up a "student dormitory control section" to control student dormitories. Electric meters were installed in student dormitories and an electricity quota was instituted for the students. Public classroom electricity use was regulated according to the number of classrooms and stories of buildings to be opened for the number of students, and lights were turned on and off at fixed times. Water was provided to the students at fixed periods of early, middle, and late peak use, producing excellent economic results. We believe that, in view of their geographical location, the schools could make full use of natural resources by digging wells around student dormitories and providing conduits, both in order to accommodate the students and to save water and electricity expenses.

Second is better management of official business travel expenses. Official business travel expenses have risen drastically in recent years as a result of the rise in prices of passenger transportation tickets. The effect on institutions of higher education located in the special economic zones has been particularly severe, each trip costing between 300 and 500 yuan, or as much as nearly 1,000 yuan. The cost of a one-way airplane ticket from Xiamen to Beijing has risen from the former 70-odd yuan to more than 200 yuan, and during busy travel seasons it costs nearly 500 yuan. The travel lodging allowance standard has also increased from the former five yuan per day to 15 yuan, and the living allowance has gone from 0.80 yuan to four yuan. A survey shows that the budget for official travel expenses of institutions of higher education in the country's four special economic zones is exceeded every year. The solution lies in strict enforcement of the Ministry of Finance's 1989 regulation on official travel payments for personnel in official agencies, the housing, city travel, and food allowances of personnel traveling on official business being

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figured in aggregate, and the total sum being adjusted, with the surplus going to the traveler and anything in excess not being reimbursed. All units that have official travel should assign a person in charge of financial examinations and approvals for strict enforcement of the "five fixes" system. Full use should be made of the convenient electrical communications found in special economic zones, using the telephone and telecommunications instead of sending people on trips. This is the only way to overcome the abnormal situation of travel at public expense when operating funds are insufficient.

Third is full use of existing facilities, making one machine serve many, and thereby avoiding duplicate imports of machinery and equipment. Today, numerous institutions of higher education have a substantial amount of advanced equipment. In view of the general shortage of operating funds, institutions of higher education in the same area, and different departments in the same institution of higher education should plan equipment purchases jointly and break down barriers between schools, institutes, and departments to permit an interflow, with a single machine serving many. Equipment used in common should be collectively managed and centrally used, thereby eliminating the "small but complete" "unit ownership system" for an improvement in the equipment utilization rate. Additionally, the advantages that institutions of higher education enjoy in equipment should be used to orient toward society, using machines to pay for more machines as the only way in which to reduce the high percentage of equipment purchase expenditures and possibly to increase the availability of funds.

Fourth is full use of library facilities at institutions of higher education. The greatest advantage that institutions of higher education enjoy is the school library's book collection and the copious reference materials there. However, library expenses are also fairly high, generally running at four percent of total school expenses. Libraries at institutions of higher education should use their advantage to the full, not only to meet the reading and research needs of the school's professors, students, staff, and workers, but also to orient toward society and open up to the outside world. They should, for example, be open to selected off-campus teaching and research units, a certain fee being collected from them. This would both raise the library's utilization rate and attain the goal of books begetting more books.

Fifth is full use of the advantage that institutions of higher education enjoy in the concentration of human talent and the concentration of knowledge in order to meet the needs of society by running various kinds of short-term training and education courses. People increasingly appreciate the importance of knowledge and the urgent need to study scientific knowledge for social progress and for the development of science and technology. This need is particularly pronounced in the

special economic zones. Special economic zone institutions of higher education should not lose this opportunity. They should make use of the enthusiasm of professors, insofar as the school's operations permit, to run short training courses and adult education guidance classes. In this way, they can both train various kinds of specialized talent urgently needed in the special economic zones and increase the school's income.

Sixth is better clearing of delayed payments. There are assorted and complex reasons for delayed payments. Institutions of higher education place numerous orders for equipment both inside and outside the country, there are many prepayments of student loans, and many loans of long duration are made to professors traveling abroad to study. Consequently, the number of delayed payments is fairly large. However, excessive delayed payments are actually a disguised way of holding on to funds that directly impairs the use of school education expense funds, and ultimately hurts the educational process. A prompt clearing of old debts will have a positive effect on the safety and integrity of school funds. Finance departments in special economic zone institutions of higher education should treat the clearing of old debts as an important task. Not only should they issue payment notices promptly each month to units and individuals who owe money, but when they issue budget norms for the new year, they should issue a notice to the whole school requiring unit chiefs to designate a person responsible for expediting the settlement of accounts. Staff members and workers who owe money for delayed accounts should pay up within a certain period of time. If they exceed the time limit, they should be fined and the money deducted from their wages the following month.

#### 5. Use of the Scientific and Technical Advantages of Institutions of Higher Education To Launch Local Special Economic Zone Scientific Research Projects

Everyone is aware that the special economic zones are windows for technology, information, management, and foreign policy. The orientation of special economic zone development is toward high-technology industries, and they depend on scientific research organizations in institutions of higher education. How can institutions of higher education do more to build themselves while supporting the building of the special economic zones? We believe that providing scientific research achievements for payment, using scientific research achievements to spur the development of scientific research is a proper orientation of development for institutions of higher education today.

So long as they complete state-assigned scientific research requirements, institutions of higher education should make full use of the advantages provided by the geographic location of the special economic zones and make use of their own dominance in science and technology, readjusting their research projects for active development of special economic zone local research projects. Facts demonstrate the validity of this point.

One example was that after fulfilling state research requirements, the electronic engineering department of a certain institution of higher education turned to tasks in a special economic zone, designing, installing, and debugging for the Xiamen No. 2 Chemical Industry Plant a "color and black-and-white applied television system." It also trained operators for the plant and solved the operators' remote-control industrial production procedure problems, thereby filling a void in the technical transformation of the special economic zone's industry. The same department repaired color television sets and developed new products for a certain joint-venture enterprise, becoming the school's major producer of income without spending a cent. In 1988, that department spent 100,000 yuan of income received from making repairs to replenish the department's education funds, and it spent 500,000 yuan to help the school build a science and technology building, while also improving the livelihood of the professors. Benefiting from the special economic zone's large number of foreign-funded enterprises and the large amount of auditing of funds and bookkeeping required, the accounting department of the school opened an accounting office that followed international practices, both solving foreign-funded enterprises' problems in auditing funds and bookkeeping and making use of the knowledge of the teaching staff. At the same time, it also provided source materials for teaching and research purposes, resulting in an improvement of the teaching environment and the livelihood of the professors. The biology department's transfer of achievements in inoculating eggs and the transfer of carbon dioxide laser-therapy machine technology all demonstrate this point fully. We foresee that, as the special economic zones develop and the special economic zone model steadily improves, and particularly with the arrival of the world's new technological revolution, scientific and technical special zones that rely on university and research institutes will become a major means of meeting the challenges of this revolution. Thus, special economic zone institutions of higher education should make major advances in scientific research management systems, gradually forming scientific research units under the leadership of institutions of higher education as research park bases that actively cooperate with local governments in the development of new technology-intensive and knowledge-intensive products, and in the development of high-quality, precision, and sophisticated hardware and software. While completing work on national research tasks, they can obtain financial support from all levels of local government, genuinely using scientific research achievements to propel development of educational endeavors.

In summary, in this era of reform and opening to the outside world when all trades and industries are developing rapidly, not only should the development of educational endeavors rely on state disbursements to increase education allowances, but special economic zone institutions of higher education should also turn away from their former insulation and use the vision of people in special economic zones in opening to the

outside world in order to make full use of the talent existing in special economic zone institutions of higher education, and the advantages they enjoy in intensive technology and knowledge. They should uphold a correct orientation of service to society, actively provide services to society for fees as a means of increasing school income while giving impetus to local economic construction, using a new pattern of multichannel operation of schools to solve in a fundamental way the existing problem of insufficient funds and thereby opening the way to a new situation of burgeoning development of the educational endeavors of institutions of higher education.

## NORTHEAST REGION

### Liaoning Official Outlines Propaganda Tasks

90ON0378A Hong Kong KUANG CHIAO CHING [WIDE ANGLE] in Chinese No 208, 16 Jan 90 pp 52-55

[Article by He Renkang (0149 0088 1660): "Open Up a New Situation in Liaoning Amid Stability—Wang Chonglu Talks About Liaoning's Propaganda Development"]

[Text] Last month Jiang Zemin told Hong Kong's press delegation, "Overseas relations are a good thing." Deng Xiaoping said, "Whoever opposes opening up and reform will come to grief." At the same time, the CPC attached more importance to the orientation of socialist development. After the "4 June" incident, the CPC further stressed and strengthened propaganda work. As a major coastal province of China, Liaoning has always impressed the outside as being open and steady. How does Liaoning open up to the outside under the current overall international climate and the domestic situation of rectification and improvement? How does it treat popular feelings and opinions? Mr. Wang Chonglu [3769 0339 7047], Standing Committee member of the Liaoning Provincial CPC Committee and director of the provincial Propaganda Department, accepted a special interview by KUANG CHIAO CHING's reporters on 19 December 1989.

### Wang Chonglu Is Former Deputy Secretary of the Yingkou Municipal CPC Committee

Wang Chonglu is a native of Panshan County, Liaoning Province. He was born on a farm in 1935. His father had an ardent love for ancient poetry and the Four Books, so he was sent to an old-style private school to study Confucian classics, history, and poetry when he was six years old. After eight years of study, he laid a solid foundation for Chinese study. He began to receive public school education when he was 14. After high school graduation in 1954, he was kept at the school to teach because there was a serious shortage of teachers at the time. After four years of study through the Shenyang Correspondence Teachers' Institute, he obtained a vocational college diploma. In 1961 he was transferred to

work in Yingkou Municipality of Liaoning Province and devoted a total of 10 years to journalism. He joined the CPC in 1965. In 1980, he was transferred to work in an organization of the Liaoning Provincial CPC Committee. In 1983, he was assigned to deputy secretary of the Yingkou Municipal CPC Committee. In 1988, he was promoted to Standing Committee member of the Liaoning Provincial CPC Committee and director of the Propaganda Department of the Liaoning Provincial CPC Committee.

#### **Appropriate and Not Wavering**

Wang Chonglu is the director of the Propaganda Department of the provincial CPC Committee as well as a writer. He began to write prose in his spare time in the late 1950's. He stopped writing for 10 years during the Cultural Revolution. In the late 1970's, his creative passion was rekindled and he got reacquainted with the muse. He published over 200 essays and over 100 old-style poems in dozens of newspapers and journals, including the overseas edition of RENMIN RIBAO and GUANGMING RIBAO. In 1986 and 1987 respectively, his collection of prose, *Willow Shade and Catkin Talk*, and his collection of essays and notes, *Talents and Poetry*, were published. Since he assumed the duty of a leader, his work has been very arduous, but he persists in creative activity in his spare time. He enjoys it so much that he can forget to eat and sleep. He is a member of the Liaoning branch of the Chinese Writers' Association, a member of the Chinese Prose Society, vice chairman of the Liaoning Provincial Essay Society, and vice chairman of the Liaoning Provincial Poetry Society.

Wang Chonglu is broad-minded and straightforward. He dresses plainly, is very strict on himself, does not drink or smoke, and dislikes socializing. Among the poems given to him as gifts by an old poet, one reads: "Minding not the merriment in the court but immersing in the classics, preferring to be a recluse and a scholar." This scholarly character of his has gained much support from his colleagues, friends, and relatives.

The propaganda work of the CPC includes theory, news, publication, culture, arts, broadcast, television, and social sciences research. The responsibility of the director of the propaganda department of an open large province is quite heavy. Judging from Wang Chonglu's experience and performance, he is indeed a very suitable person for the job. An official of a department of Liaoning Province remarked when he introduced him: Wang Chonglu's characteristic is that he is sober-minded, steady, and good at analyzing and appraising the situation. He does not waver when he handles an issue.

Wang Chonglu's wife is an ordinary laborer who is still working in Yingkou City. His three children are all in Yingkou City. One is an ordinary worker in a government organ, one is a worker in a large collective, and the other is a student. The fact that the wife of a high-ranking

official is an ordinary laborer who always works hard and silently and makes no special demand wins people's respect.

#### **Eight Characters: "Remain Steady, Pluck Up, Be Prudent and Positive"**

Wang Chonglu said that the current principle of Liaoning Province's propaganda and media work is eight characters: "Remain steady, pluck up, be prudent and positive."

#### **Strive for Stability and Build a Good Environment**

Wang Chonglu said that this eight-character principle was set at a number of meetings we held recently. "Stability" is a very important issue. The guidelines of the Fifth Plenary Session of the CPC Central Committee are to stabilize political, economic, and social situations and to reassure the people. Deng Xiaoping said that stability is a task that comes before everything. To stabilize political, economic, and social situations and to reassure the people, the media work must also be stabilized. "Pluck up" means to rouse ourselves, inspire the people, and arouse the enthusiasm of the public to work together with one heart to fulfill the four modernizations and revitalize the Chinese nation. This is also a very important issue. If we keep thinking that nothing can be done in our nation and our country, it will do us absolutely no good. The fact is not like this either. However, we should pluck up our real strength, not imaginary strength. It should conform to the principle of seeking truth from facts. It is not the same as developing blindly without consideration for national conditions and reality and going all out before conditions are ripe. "Be prudent" is to be cautious, stress science, and avoid carelessness. We should not take on everything on the spur of the moment. "Be positive" means to depend mainly on positive propaganda. This does not contradict the principle of criticism and supervision, but positive propaganda is the key note. Through the implementation of this principle, we should do a good job in publicizing the guidelines of the Fifth Plenary Session of the 13th CPC Central Committee to promote the rectification and improvement campaign and the reform. During a certain period in the past, we dwelled on problems and the negative aspects in propaganda and media work, thus lacking a sense of constructiveness. Criticism is necessary, of course, but it should never be done like Fang Lizhi, Liu Binyan, and Liu Xiaobo did. They practice national nihilism. So, the more they criticize, the more divided China will be. They even ask that race be changed. In fact, creating chaos in China does no good to China or other countries.

In view of changes in the overall international climate and the reality at home, Wang Chonglu said that in 1990 the propaganda work of Liaoning, which is an important province of China, is mainly to implement the guidelines of the Fourth and Fifth Plenary Sessions of the 13th CPC Central Committee. We should carry out especially the following few tasks:

**Many Principles and Policies of Reform and Opening Up Remain Unchanged**

1. In accordance with the demand of the Fifth Plenary Session of the CPC Central Committee, the most important is to adhere to the principle of stability and render better service to the rectification and improvement campaign and the deepening of reform. To do a good job in the reform, opening up, and economic construction, we need a good environment. Only when we have a stable political and social environment can we better develop the national economy. The purpose of propaganda work is to provide a stable media environment for the rectification and improvement campaign and the reform. The basis of political and social stability is economic stability. To achieve economic stability, we must have stable policies. It has been clarified that many principles and policies of reform and opening up will remain unchanged. This include the factory director's responsibility system and the contract responsibility system of enterprises, the output-related household contract responsibility system of rural areas, the open-door policy, the policy of opening up all of Liaodong Peninsula, and the policy of developing a diversified economy based on public ownership. All these will remain unchanged. The reform and the open-door policy must be unwavering. The policy of reform and opening up must remain unchanged. Propaganda in this field is extremely important. The slightest negligence would cause unrest among the people. We should reassure the public through propaganda.

2. To firmly serve the rectification and improvement campaign and the deepening of reform, the priority task at present is to unify the ideological understanding of the broad masses of cadres. To overcome difficulties, fulfill tasks, and develop the economy, we should not rely only on management, we should also emphasize the need to enhance people's ideological awareness. We should relentlessly conduct education in socialism, patriotism, collectivism, self-reliance, and struggle under harsh conditions. In the course of rectification and improvement, we may come across the adjustment of interest relations. Because of this, we should carry out propaganda to teach the public that lower levels should be subordinated to higher levels, the local to the whole, and immediate interests to long-term interests. We should also carry out propaganda with regard to understanding the current situation. There are many difficulties and quite a few problems at present. But achievements are predominant in the 10 years of reform. Nobody can deny this. We should look at achievements and problems in an all-round and dialectical way. Unifying the people's understanding in accordance with the guidelines of the Fifth Plenary Session of the CPC Central Committee is the objective that propaganda work strives to achieve.

3. Strengthen and focus energies on doing a good job in the propaganda of economic construction. Due to the occurrence of disturbances in Beijing in 1989, the propaganda work put more emphasis on understanding issues in this regard. In accordance with the demand of

the Fifth Plenary Session of the CPC Central Committee, while further consolidating and developing the political situation of stability and unity, we should focus energies on doing a good job in economic work. Because of this, we should put more effort in economic construction in 1990. As far as economic construction is concerned, Liaoning's agriculture should get on a new level. Liaoning is planning to increase annual grain output to 30 billion jin during the Seventh 5-Year Plan period. With regard to industry, large and medium-sized enterprises are a every large number in Liaoning. They are the lifeline of Liaoning's economy. For this, we need to adopt a policy leaning toward large and medium-sized enterprises and strive to guarantee their capital needs under the condition of tight money supply. At the same time, we should solve the problem of money-losing enterprises and expand exports to earn more foreign exchange. The task of propaganda work is to sum up more experience in the above-mentioned areas and establish a good example.

4. Put great efforts in opening up and serving Liaodong Peninsula. To make economic construction a success, Liaoning must open up to the outside. Liaoning has excellent conditions for opening up. It has eight large and medium-sized coastal open cities. It has great stamina in work and a bright future for exports and earning foreign exchange. The Shenyang-Dalian Highway, which has been completed, links several cities in the central part of the province and has shortened the original 440 km of roadway to 378 km. It used to take eight hours for vehicles to travel this route. After the highway to be completed on 1 October 1990, it will take only four hours. Liaoning Province has three airports and four ports that are open to the outside. Rail transportation is also very convenient. We should publicize these conditions that are favorable to opening up to promote the opening up and further development of Liaodong Peninsula.

**Let the World Know Liaoning**

Wang Chonglu said we need to improve propaganda work. In recent years we invited Hong Kong, Macao, and foreign reporters to visit Liaoning every year. After the "4 June" incident in 1989, we also invited, through the Hong Kong branch of XINHUA NEWS AGENCY, several Hong Kong reporters to visit Liaoning. They wrote scores of reports on Liaoning after gathering materials in the province. In the future, Liaoning will continue to strengthen overseas cultural exchange. For foreign exchange, a journal LIAODONG BANDAO [LIAODONG PENINSULA] was founded in the province, and DONGBEI ZHICHUANG [NORTHEAST WINDOW] was founded in Dalian. At the same time, an audio-video publishing house oriented toward the outside was also founded. Quan Shuren [0356 2885 0088], secretary of the Liaoning Provincial CPC Committee, Sun Weiben [1327 4850 2609], secretary of the Heilongjiang Provincial CPC Committee, and Wang Chonglu are all advisers of DONGBEI ZHICHUANG. Both journals and the publishing house are aimed

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toward the outside. Their objective is to facilitate and extend the mutual understanding of China and foreign countries. The eight-character principle of "remain steady, pluck up, be prudent and positive" is meant for internal propaganda. Wang Chonglu added, "Of course, internal propaganda also has similarities to external propaganda. The focal point of external propaganda is to let the world know Liaoning, and Liaoning the world."

Some of Liaoning's literary and art organizations also often visit foreign countries. The Shenyang and Dalian acrobatic troupes, the Haicheng Stilts and Yangko troupe, and the peasant brass and drum band of Jinzhou, Dalian, and so on, enjoy a definite reputation abroad. Literary and art exchange is also conducive to facilitating understanding between China and foreign countries.

#### Propaganda Engineering in 1990

Wang Chonglu revealed that Liaoning is planning to hold in 1990 a meeting to strengthen and improve the propaganda on opening to the outside, to sum up and exchange experiences, find out where we lag behind, and promote propaganda on opening to the outside. Liaoning will also make great efforts to invigorate literary and art creation and enliven the masses' cultural life. We will organize writers and artists to get deeply involved in real life and go to factories, rural areas, and the front line of scientific research to strive to create more works reflecting the images of workers, peasants, and intellectuals. We should also help writers and artists solve some practical problems and get to know them better. In order to commemorate the 40th anniversary in 1989 of the PRC's founding, we compiled a series of literary and art books covering a variety of materials, including novels, prose, poems, essays, reporting literature, literary and art criticism, and dramas. It contains 12 volumes and 5-6 million words. It was published by the Liaoning Chunfeng Publishing House in the first quarter of 1990. As for work theory, the main task for the 1990's is to organize leading cadres to study philosophy.

### NORTHWEST REGION

#### Janabil Stresses Unity, Stability in Ili

90CM0107A Urumqi XINJIANG RIBAO in Chinese  
23 Feb 90 p 1

[Article by He Xinglian (6320 2450 5571): "Strengthening Unity Among the Nationalities Is the Key To Guaranteeing Stability in Xinjiang—Repeated Emphasis by Janabil in His Investigative Study in Ili"]

#### [Text] Report From Yining

On 10 February 10 1990, Deputy Secretary Janabil [6328 6719 1580 1422] of the Xinjiang Uygur Autonomous Region's party committee began an investigative study in Ili's Kazak Prefecture as well as providing guidance. He successively held thorough talks with leaders in factories, rural areas, schools, and enterprises as well as with religious and united front workers, and also talked with those

responsible for cultural education propaganda. He noted that strengthening unity among nationalities is the key to guaranteeing Xinjiang's stability. The cadres of all nationalities and the masses must contribute their efforts to solidify and develop a political situation that will afford stability and unity in Xinjiang.

At the talks with the various nationalities circles, Janabil said that the key lies in achieving unity among the nationalities. "Right now, our unity is in good condition, but a minority of people with ulterior motives are striving to create a rift and to destroy this unity. We must regard them and their efforts the same as 'when a rat runs by, every person must give the alarm and beat it.' There must be an alertness against those who cloak themselves in religion and seek to destroy. All such attempts must be exposed and attacked. On one hand, we respect freedom of religion, and ensure proper religious activities; but on the other hand, religious activities must be conducted within lawful limits and illegal acts must be prohibited."

After he received the reports of the entrepreneurial leaders, Janabil pointed out that all administrative reorganization and thorough reforms must depend completely upon the working class. At present, enterprises are confronting many difficulties. A small number of enterprises have ceased production work and can only pay workers living expenses. "But if we would only explain the difficulties to the workers, the vast majority of the workers can overcome the difficulties. The feelings the workers have for the party are pure and sincere, they are resolute in their determination to tread the socialist path. We must rely on them completely in stabilizing politics and economics."

Janabil pointed out at the conference of Ili's cultural and educational propaganda cadres that they must fully exercise their functions in stabilizing the general situation. The propaganda departments must continue to conduct thought education based on the four basic principles and anti-bourgeois liberalization, proceed with education in the economic situation with administrative reorganization and thorough reform as the core, education in the international and domestic situations, education in strengthening unity among nationalities, and education in opposing separatism and preserving a unified nation. Theoretical departments must enhance the study of Marxist theory and use Marxism and socialism to occupy the public opinion arena and clear the fog in theories, returning to a proper course the theoretical thought that was disrupted by the trend toward bourgeois liberalization. Using a coalescence of theory and practice, the scientific socialist theory's objective inevitability and omnipotence must be expounded. Those on the education front must maintain a solidly socialist direction and mold schools of all levels and types into impenetrable fortresses providing food for those who will bear the mantle of socialist endeavor. They must step up efforts in political thought, increase classes in Marxist theory at the university and middle school levels, strengthen and improve moral education at middle and elementary schools, firmly educate them on the situation, on patriotism, socialism, collectivism, labor, obeying the law, and tradition of bitter struggle, as well as educate

them in the ideals of communism and Marxist theory on nationality, its policy on nationality, and education on unity of nationalities. Culture, technology, news, publications, and such must occupy the areas of science and culture with socialism and provide healthy and beneficial spiritual food for the masses. The news media must adhere to a line of positive propaganda and work tirelessly to create an environment conducive to stability.

### Xinjiang Propaganda Department Stresses Stability

90CM0105B Urumqi XINJIANG RIBAO in Chinese  
19 Feb 90 p 1

[Article by Wang Nanzhu (3769 0589 3790): "Use Stability as the Heart in Thought Propaganda—A Talk by Hong Dazhen at a Conference Chaired by the Civilization Committee of the Autonomous Region Propaganda Department"]

[Text] Urumqi—Our correspondent Wang Nanzhu reports that the conference of the office of the Committee for the Establishment of a Spiritual Civilization Movement of the Autonomous Region's Propaganda Department just completed its four-day session on 15 February. The propaganda department heads and Civilization Committee directors of the various districts, counties, and municipalities exchanged and discussed their experiences in their work in thought propaganda and socialist spiritual civilization building as well as assigned tasks for this year.

Hong Dazhen [7703 1129 4176], Propaganda Department head of the Standing Committee of the Autonomous Region's party committee, gave a talk. He defined the gains made in the past year in thought propaganda and socialist spiritual civilization, pointed out remaining problems and the fact that thought propaganda work for this year must have as its center core promotion of a stable political situation and a stable society.

He enumerated the key points this year as follows: 1) Heavy emphasis on educating the masses on the situation at home and abroad, with continued in-depth activity using the spirit of the Fourth and Fifth Plenary Sessions as study models to pull the masses of all the nationalities together to recognize and work toward a political situation of strengthened and expanded unity. There must be steadfast adherence to socialism and opposition to the "peaceful evolution" of hostile international forces and a steadfast striving for administrative reorganization and in-depth reform. At the same time, the situation at home and overseas must be clearly explained to the masses, as should policy also be clearly defined and any difficulties and measures to solve the difficulties. There must be a promotion of encouragement and confidence in building a socialism that takes into account the uniqueness of China. 2) One must study and learn from Marxism well and use Marxist and socialist thought to dominate the ideological arena and, with banners bright and high, carry out adherence to the four basic principles, oppose and struggle against the trend of bourgeois liberalization. The printed press, radio, television, periodicals, publishers, and all

agencies studying social sciences must earnestly clean up the essays and other products of the past few years. The essays and articles with erroneous views must be cleaned out and their impact reversed. From now on, there must be no room for bourgeois liberalization and separatism to operate. 3) Normal work in political thought must be done well, there must be stabilization in enterprises, rural areas, schools and municipalities. It is now an opportune time to implement the four basic principles, as the autonomous region has organized the Thousand-Person Work Team of the East Wind to go to the rural areas and the factories and the grassroots to carry out the four basic principles within the region, oppose bourgeois liberalization, show patriotism, and oppose "peaceful evolution," oppose separatism, promote education in national unity, and education in the fact that China can only be saved through socialism. 4) Must continue to develop widely and deeply the nationality views of Marxism and education in the party's policy on nationalities, education in the inseparability of the Han from the minority nationalities, expand models for improvement of nationality unity and individual activity and collaboration between military and civilian for nationality unity and oppose separatism. 5) Continue to grasp the mass socialist spiritual civilization and promotion of the spirit of Lei Feng. The "Three superior, one study" is a basic mission of a civilized municipality in raising the quality of all people and all nationalities. It is the New Man of the "four haves," idealism, virtue, culture and discipline. The substance, form, and boundaries of activity must constantly go deeper and be creative. The autonomous region's Committee for Building Spiritual Civilization will launch a selection of model workers in this area this year, looking for 100 persons to be awarded.

A number of autonomous region civilization agencies were also named at the meeting.

### Separatism Seen Threat to Stability in Xinjiang

90CM0103A Urumqi XINJIANG RIBAO in Chinese  
24 Feb 90 p 1

[Article by Shi Jian (4258 1017): "At Talks With Responsible Leaders at Nanjiang's Sidi Prefecture, Song Hanliang Emphasized That Separatism Is the Greatest Threat to Xinjiang's Stability"]

[Text] Wired from Aksu—Stabilizing the situation in Xinjiang is the priority mission overriding everything else and national separatism is the primary menace to such stability. On this matter, leaders at each and every level must keep a clear and alert mind to withstand or forestall possible disturbances or sudden incidents, and work with stability as the overriding concern. These were the main points stressed by Comrade Song Hanliang [1345 3352 5328] in his 23 February talk with the principal political and party leaders of Sidi, Nanjiang, after he had conducted a thorough investigative study in the Aksu Prefecture.

Comrade Song came to Aksu's Kuche County to conduct the study. Based on an exhaustive investigation, he convened a conference that included leaders from Kash,

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Hetian, Aksu prefectures, and Kizilsu Kirgiz Autonomous Prefecture. At this meeting, views on the situation were exchanged, the situation and existing problems were analyzed, recourses considered, and tasks assigned.

After he had analyzed the situation at home and abroad as well as in the region, Song noted that this was the best time historically for unity, but we should notice that there are some weak links as there are some unstable factors that might affect unity. In particular, some separatist elements had never ceased their divisive and disruptive activity. Separatism remains the greatest menace to stabilizing the overall situation in Xinjiang. Regarding this, we must realize that we cannot overemphasize the need to grasp stability firmly as an objective necessity. In the likelihood of disturbances this year, we would rather overestimate the possibility than underestimate it. We cannot afford to drop our guard and be languid or complacent. The struggle between separatism and unity is, in reality, not a nationality question, nor a religious one, but political. Anti-separatism preserves national unity, and solidarity among nationalities as well as social stability and benefits all nationalities. The vast majority of the minority cadres and the masses stoutly oppose separation and rally around unity among the nationalities and of the nation. Thus, minority masses are the main source of strength in our fight against separatism.

Song Hanliang said that separatists frequently hide under the cloak of nationality and religion in their works of destruction. We must therefore maintain the highest alertness to expose their true nature and face them frontally as we struggle against them. At the same time, we must step up our work in managing religion and plug loopholes so as to avert potential trouble and not let a small number of separatists manipulate religion and religious sites. The conduct of this small number of separatists violates the basic interests of all nationalities, and will therefore encounter the opposition of all. The nationalities of Xinjiang have a distinguished tradition of preserving unity among the nationalities and of the nation and of opposing separatism. Our great nation has a strong drawing power toward the center, a great cohesiveness so that even during the time of old China when there was poverty and backwardness, separatist plots never succeeded. Now, we are a strong socialist nation, so they will have even less chance for success and are bound for defeat.

Song further noted that there were a number of hot issues everywhere and at every agency. While these are internal contradictions, if unresolved or not resolved properly, they are destabilizing factors or even powder kegs for incidents. We must pay attention to them as we grasp for stability, study them carefully and take appropriate measures. We must tend to potential problems while they have not yet sprouted and not wait until they have actually spread and become incidents. Seizure of stability rests with the leadership at every level. In matters that so greatly affect national and nationality unity, the leadership cadres must show the flag clearly and brightly and stand their ground

firmly on the first line of stability and use their actual actions to work hard in unifying and leading the nationalities in strengthening and expanding a stable and united political situation. At the same time, this is the basic guarantee of our work for stability. Grasping stability means paying attention to maintaining policies and strictly differentiating and dealing with two dissimilar contradictions.

### Kazakh Nomads Turn to Farming

*90CM0105A Urumqi XINJIANG RIBAO in Chinese  
8 Feb 90 p 2*

[Article by Zhu Biyi (2612 1801 5030): "68 Percent of Ili Nomads Alternate Between Fixed and Mobile Residences—Herding Sheep, Yet Planting Crops and Even Raising Poultry"]

[Text] Yining—Our correspondent Zhu Biyi [2612 1801 5030] reported that a cadre of the Kazakh minority got on the topic of some family members taking up fixed residence in the nomadic region and became excited as he warmed to the subject. Several younger brothers divided their labor, some raised large livestock, some sheared sheep, and another brother and their mother settled down to grow some crops.

While there have been difficulties, the nomads of the Ili region are proceeding with dividing their time between a fixed home and continued mobility. In 1989, about 1,935 nomads entered such status, bringing the total so far to some 19,614. These part-time nomads now constitute 68.2 percent of the total nomads and 70 percent of the total population. The vast majority of these became farmers and settled on land allotted to them. Last year, they planted 160,000 mu of grain. After the fall, they reaped 2.4 million kilograms of wheat and planted another 140,000 mu of livestock feed, reaping 2.7 million kilograms of corn and barley. Fixed residence has brought clear changes to the nomads' production and lifestyle. They no longer have to move around on the plains year-round with their entire family together and their belongings packed on their backs, but the young and strong herd their flocks in the hills while the old and the children stay to farm or raise poultry. Some even grow vegetables. In the spring, such counties as Xiyuan see brisk sales, most of the customers being fellow nomads.

Because of limited electricity, not all those who have settled down can watch television, but authorities concerned are looking into the possibility of wind-powered electricity to solve the problem.

Some of the earlier and more settled areas have set up schools and medical clinics; others have not yet done so, and this occupies the minds of the Ili leaders.

One participating nomadic comrade evaluated it this way, "Crude and just started a couple of years ago, not very satisfactory, but it's a step."

**Trade Opportunities Arise in East Europe**  
*90OH0469A Hong Kong CHING CHI TAO PAO*  
*[ECONOMIC REPORTER] in Chinese No 7,*  
*19 Feb 90 p 32*

[Article by Zhang Yi (4545 1837): "State of Flux in East Europe Provides New Opportunities for Taiwan Trade"]

[Text] Recently, the changes in the Soviet Union and Eastern Europe have shaken the entire world. The reform of these countries' political systems has caused their economies to open up to the outside world, and as a result they will have a strong influence on trade in the Eastern and Western economies.

Taiwan has been watching and preparing for the opportune moment, readying itself for trade with Eastern Europe, and focusing on Eastern Europe as a future market with strategies and preparedness.

**A Rapid Increase in Trade With Eastern Europe**

In recent years, as a result of various changes in Taiwan such as the change in the investment climate, the appreciation of the currency and the labor shortage, a succession of traders and manufacturers have turned to the outside world to invest, for a time distributing their efforts among mainland China, the United States, Western Europe, Southeast Asia, and Japan, and especially in the last two or three years opening up the Eastern European market.

In March, 1988, the Taiwan authorities allowed businessmen to trade with Eastern Europe. Just at that time the socialist countries of Eastern Europe were opening up their markets, and so that year Taiwan's total trade with Eastern Europe was \$409 million, a 60 percent increase.

Last May, the National Bureau of Trade took a further step to liberalize trade policy toward socialist countries: the Soviet Union, North Korea, and Albania were all to be dealt with using one approach; for investment, shipping, establishment of commercial affairs offices, commerce and manufacturing, and inspections, the other socialist countries were to be treated the same as the United States and Europe.

Thereafter, the Executive Yuan implemented a large-scale liberalization of trade policies toward Eastern European socialist countries: with the exception of indirect trade with the Soviet Union, Albania, and North Korea, and indirect imports from Cuba, direct trade was allowed with other socialist countries; mutual visits, participation in exhibitions, meetings, investing in building factories, and establishing branch companies or offices were permitted as with most free trade nations.

Taiwan's liberalized trade policies toward Eastern European countries effectively spurred the development of mutual trade. Last year, Taiwan's trade with Eastern Europe exceeded \$500 million, a 25 percent increase over the previous year. Out of that total, the three largest

portions were: \$140 million in trade with the Soviet Union, a 3-fold increase over the previous year; \$120 million with Poland, a 42 percent increase; and \$108 million with East Germany, an 8 percent increase.

**Attacking With Full Force**

Though trade relations between Taiwan and Eastern Europe made great strides forward during the past three years, the National Bureau of Trade feels that the Eastern European market is a very small percentage of Taiwan's total trade, so clearly that market still has a lot of growth potential.

Recently, the Taiwan media have seized the Eastern Europe trade opportunity and rallied their forces, and ideas such as opening direct trade with the Soviet Union keep popping up. They note that Eastern Europe's population is over 400 million and per capita income is over \$3,000, and in some places \$7,000 to \$8,000. However, though these countries have resources, their military and welfare outlays are large, while goods and materials to benefit the people's livelihood are correspondingly in short supply. Therefore, at the outset of opening up trade, there is an urgent need to attract capital in order to implement the development of resources and the production of goods and materials for the people's livelihood, or to import large quantities of goods and materials to satisfy the people's needs. Taiwan has always mainly exported light industrial products; in recent years, since markets were overly centralized and difficult to crack, they ran into much difficulty. The opening up of Eastern European markets doubtlessly has brought new hope for diverse markets to Taiwan's exporters. Some manufacturers in Taiwan, after examining Eastern Europe, also feel that the Soviet Union and Eastern Europe are not lacking in high technology but consumer goods are greatly lacking, and so the Eastern European market is worth cracking.

Amid the call to "welcome the arrival of the new era of trade with Eastern Europe," the Taiwan authorities are preparing to adopt a new set of trade policies toward Eastern Europe that are even more realistic and flexible. Taiwan's "Foreign Trade Association" held a professional meeting in January to thoroughly discuss and investigate their plans for opening up and developing overseas markets during the current year and next; the important new markets yet to be developed were identified as Eastern Europe, Japan, and southwest Asia. Further, after establishing the first commercial beachhead in Hungary, they are making concrete plans and proposals to establish beachheads in Eastern Europe. Current plans for opening Eastern European markets have already moved into an accelerated phase; in days to come, in response to local political reforms, they will increase mutual visits by organizations and participation in exhibitions, and further bring together large-scale import-export manufacturers and businessmen to focus on the Soviet Union and Eastern Europe.

However, Taiwan and Eastern European countries have been cut off from each other for close to 40 years; to grasp the Eastern European trade opportunity in order to obtain more direct benefits, it will be necessary to adopt a more concrete plan of attack. Because of the long-term mutual separation, Eastern European countries are naturally not too familiar with Taiwan; shipping, banking, visas, and the like are still obstacles to Taiwan's development of trade with these countries. To accomplish this, such measures as improving trade information and the cultivation of expertise in Eastern European affairs, speeding up the development of transnational banking business, and planning communications and transportation networks should not be regarded too lightly.

#### **Opening Direct Trade With the Soviet Union**

Last August, when the Executive Yuan announced direct trade with Eastern Europe and other socialist countries, people were quite concerned about restrictions on trade with the Soviet Union. However, in light of changes in the international situation, trade restrictions with the Soviet Union have already been loosened up. On 22 February, Taiwan's Executive Yuan held a high-level meeting wherein direct trade was approved. This decision will later be submitted to the Executive Yuan's sessions for ratification and implementation.

In the past 10 years, Taiwan has already begun trade with various Eastern European countries, but trade with the Soviet Union mainly went through Japan and West Germany. Taiwan's main exports to the Soviet Union are consumer goods, electrical products, textile products, toys and car parts; they import lumber materials, minerals and industrial resources.

Although Taiwan and the Soviet Union have already begun direct trade, an important question is how to swiftly establish good trade relations. Taiwan's "Foreign Trade Association" secretary-general Liu T'ing-tzu [0491 1694 4809] said that economic relations between Taiwan and the Soviet Union will not necessarily be limited in the future to direct or indirect trade; the biggest obstacle is the lack of efficient channels of communication with the Soviet Union. The aforementioned council in recent days has been vigorously drafting a set of guiding principles for trade with the Soviet Union, and it is also arranging for a trade delegation to visit the Soviet Union in April or May. In

September, Taiwan's Foreign Trade Association<sup>“</sup> also will hold the first Taiwan products exhibition in Moscow, to open up a market for Taiwan's goods in the Soviet Union.

Without a doubt, since Taiwan and the Soviet Union opened up direct trade, Taiwan-Soviet trade will continue to develop. At the same time, opening up direct trade and investment with the Soviet Union will be the beginning point of a series of action. As for direct trade with Albania, the Taiwan authorities are currently considering and investigating this possibility, and it is probably not long before there is direct trade with mainland China and North Korea.

#### **Government Amends Rules on Mainland Media Transmissions**

*OW0205052190 Taipei CNA in English 0238 GMT  
2 May 90*

[Text] Taipei, May 2 (CNA)—The cabinet task force on mainland Chinese affairs approved Monday an amendment to current broadcasting regulations to allow the transmission by domestic broadcasting and television organizations of their news reports and news programs from mainland China to Taiwan via international telecommunications or equipment in foreign countries or third areas.

Liao Cheng-hao, deputy director general of the Government Information Office, said however that the relaxation applies to news reports and news programs only.

#### **Films on USSR To Be Shown in Taiwan**

*OW2604084090 Taipei International Service in English 0200 GMT 24 Apr 90*

[Text] The Government Information Office [GIO] has said that films on the Soviet Union can now be shown in Taiwan. The batch of 20 Soviet films will include classics such as "Anna Karenina," "War and Peace," and other more recent hits. The GIO said the lifting of the ban on Soviet films is in line with the government's new policy of expanding ties with East Bloc countries. Last year, Taiwan imported 506 foreign films. More than 70 percent of these were American.

With Soviet films allowed to be shown here, only movies from Mainland China, North Korea, and Albania remain on the ban list.

**Meeting Point Views 1991 Political Development Plan**

90CM0117A Hong Kong MING PAO in Chinese  
29 Mar 90 p 15

[Article by Executive Committee of Meeting Point: "An Assessment of Arrangements for the 1991 Modification of the Political System"]

[Text] On 21 March, the Hong Kong Government officially announced its intentions for modifications in 1991 of Hong Kong's political system. Although the government announcement deals with the composition of the 1991 Legislative Council, and states that the district boards and the two municipal councils will be maintained unchanged, the text of the published announcement shows no comprehensive plan that would prepare for the gradual transition of the political system of Hong Kong in 1995 and 1997. Some arrangements in the plan make people suspect the sincerity of the Hong Kong Government in its professed intention to democratize the political system.

**Composition of the Legislative Council**

In the present announcement of the Hong Kong Government, the focal point, in our opinion, is not the fact of having directly elected seats. The 18 directly elected seats were long ago fixed between the British and the Chinese side. With this restriction, if one were to institute a deliberative system, and provide opportunity for a well-balanced participation in the election, the situation would make it necessary to divide all of Hong Kong into nine electoral districts. However, if that were done, to hold each electoral district to a level of 60,000-70,000 people, we would have to say, would certainly make for inordinately large districts. But weighing opinions from various sides, Meeting Point finds that the arrangement for directly elected seats is still acceptable.

Although introduction in 1991 of 18 directly elected legislators is a remarkable fact, it does not conceal the conservatism and regressive character of the Hong Kong Government in its arrangement for elections according to functional constituencies:

1. Of the seven newly added functional seats, three will be given to the two municipal councils and the Heung Yee Kuk [rural area council]. This arrangement is really hard to understand. The Hong Kong Government has all along been very strict in defining the term "functional," basing it in this respect on significance to socioeconomic development. Now, however, that it also designates the two municipal bureaus and the Heung Yee Kuk as functional, the former strict principle seems to have become somewhat permissive. If the so-called village interests represented by the Heung Yee Kuk represent an important social function, could other locally based or ethnic interests not also ask to be recognized as functional (such as the Kaifong [neighborhood welfare associations], religious groups, groups of people of Indian or European descent, etc.)? Similarly, urban services, taken

as a kind of public service, could be considered as functional, and by the same logic we could maintain that such important social service organizations as the Medical Administration and the Housing Authority should be counted as functional. If we go on like this, the term "functional" will become all-embracing, and, we are afraid, could easily be made into a tool of the government for appointments under some disguise.

2. Of the other four seats of functional constituencies, three will be given to industry and commerce (that is, banking, tourism, construction, and real estate) and one to engineering circles, a "one divides into two" affair. This is obviously a show of partiality toward industry and commerce. In the past, prominent people in society have always maintained that the working class is being neglected, and that they are not adequately represented in the Legislative Council. However, the government has not taken any measures to improve the situation in this respect.
3. There is no indication that the government has instituted any specific measures to raise the democratic extent of the functional groups in their voting, for instance, to have as far as possible one person, one vote balloting directly within each group, instead of votes being cast by the organization altogether as one unit.

**Hong Kong Government Not Eager To Accelerate Democratization**

The Hong Kong Government's conservatism is also obvious from the way it keeps appointing delegates with the purpose of maintaining its majority. In the selection of functional groups and in the allocation of seats, it is obvious that the Hong Kong Government has no intention of accelerating democratization. Although the political system in the Basic Law Draft is conservative, it set certain upper limits on the proportion of direct elections, but the time limits it had fixed were obviously not fully applied in the Hong Kong Government's arrangements for 1991. This makes one naturally suspicious that the enthusiastic attitude it had formerly displayed for political democratization was actually unreal and for outer appearances only. Furthermore, the delay and unwillingness to recognize the political rights and responsibilities of 18-year old persons as adults is also most disappointing.

One may perhaps say that the purpose of the Hong Kong Government in retaining a certain number of appointments is to enable the government, at a time when ex-officio delegates are reduced and directly elected new delegates come in, to maintain considerable support in the Legislative Council, as otherwise difficulties would arise in legislation and allocation of finance. However, this argument is misleading. Meeting Point agrees that the executive organ must have true support in the legislative organ, to be able to operate effectively. However, according to the Hong Kong Government's decision for 1991, by having 3 ex-officio members and the 17

appointed members (not counting appointed vice chairmen), the total number of so-called progovernment seats is also only a third of the Legislative Council. Moreover, the Hong Kong Government has always proclaimed that the appointed delegates have independent status and are not manipulated by the government. If the government wants to ensure support from the legislature it cannot rely on the appointment of delegates.

#### **Legislature's Support of the Executive**

Meeting Point believes that it is most important that effective liaison be established between the legislative and executive branches, as it is a matter that has a bearing on the smooth operation and stability of the entire political system and the government. However, it is precisely on this important point that there is not one word in the present statement of the Hong Kong Government.

After 1997, there will be a separation of the executive and the legislative organs, and in what way the executive will obtain support from the legislature will be a critical point in the future political system. To gradually establish some bridge to the post-1997 system, initial consideration should be given in 1991 to how to ensure a cooperative relationship between executive and legislature, apart from a pattern of controlling the legislature by officially appointed delegates. This question must be viewed from two angles:

1. Strengthening the role of the legislative councillors in their participation in the decisionmaking processes of the government. At present, all government departments have set up consultative committees, and two bureaus have also set up teams charged with specific responsibilities in different policy spheres, the role of the two overlapping to some extent. The government should consider how to structure the participatory model in a more rational way, so as to render the functions of the legislative councilors in the decisionmaking process more distinctive and fully institutionalized.

2. After 1991, the "Executive Conference" (equivalent of the present Executive Council) will be the important organ and link between the chief executive and the legislature. Before 1997, the Hong Kong Government should gradually build up this liaison organ. The Hong Kong Government has all along indicated that it will maintain the dual status of well-qualified councillors in the two organs in order to stabilize the relationship between the executive and the legislature. Meeting Point suggests that, to conform to the changes in the composition of the Legislative Council, the governor should particularly appoint more legislative councillors elected by the people, especially those directly elected, to the Executive Council. According to the composition of the 1991 Legislative Council, as presently published by the Hong Kong Government, popularly elected councilors take up two-thirds of the seats. If there is no corresponding number of popularly elected members in the

Legislative Council, it will be difficult to have stability in the relationship between executive and legislature.

#### **The Independent Role of the Legislative Council**

Cooperation between executive and legislature must not be an excuse for the executive manipulating the legislature. Whether it is during the remaining time of transition, or for the time after 1997, the position of the legislative organ must be one of independently reflecting the will of the people and supervising the activities of the government. In the arrangements for modifying the political system we must therefore particularly enhance the Legislative Council's own operational capabilities and the capability of councillors to deliberate on policies and discuss political affairs.

Beginning with the above-stated principles, the pattern of the combined operations of the executive and the legislative organs (such as combined internal conferences and combined work teams) should be critically examined, as otherwise the legislative councillors will be unable to free themselves from the controls of the executive, or will assume the appearance of being guided by the members of the Executive Council. At the same time the government should improve its support system for elected councilmen. This is particularly important for directly elected councilmen, because they will frequently lack the support that functional delegates have from their organizations. Meeting Point suggests emulating the method of the British Parliament, namely to assist individual legislative councilmen with public funds to pay for office space and secretarial expenses, and to hire full-time research assistants for them, so as to enhance their participation in council affairs.

#### **Role of Vice Chairmen of the Legislative Council Lightly Passed Over**

In 1991, the Hong Kong Government will institute the office of vice chairman of the Legislative Council, stating that it does so to prepare for the internal election of the chairman of the Legislative Council in 1995. However, as to the actual role and powers of the vice chairman, the government statement passes lightly over this item. Meeting Point agrees that anyone who chairs meetings of the Legislative Council must do so by maintaining absolute political neutrality. For this reason the concurrent chairmanship of the Legislative Council by the governor must be opposed. On the principle of gradually establishing a bridge to the post-1997 political system, we support establishment of the vice chairmanship in 1991. However, it is precisely because of the need to prepare a link to and gradually become familiar with the new operations that we believe that the vice chairman should not be generated from among the appointed councilors. Moreover, if the governor appoints the vice chairman, the latter may not find it possible to get out from under the shadow of the executive, and this would be detrimental to his being established as an independent office.

The government emphasizes that it is highly desirable to do a good job in the 1991 elections to the Legislative Council, in order to set an excellent example for the future.

Meeting Point believes that in this respect the government must most energetically and efficiently accomplish voter registration, improve election propaganda, and arrange for a good day for the election to facilitate voting by the electorate, but, even more important, it must consider providing funds for the candidates as campaign fund subsidies. Since every electoral district for Legislative Council elections is now so large, quite some labor and financial resources must be invested in the campaign. As party politics have so far not yet been developed, the burden of competing in the election must be fully borne by the candidate himself, which will constitute a serious obstacle for prospective candidates. We suggest that any candidate who can get a certain limited amount of votes during the campaign must be granted public subsidies.

Although the Hong Kong Government has announced that it will not change the organization of the district boards, it has redrawn some electoral districts, the actual effect of which is a contraction of the electoral districts. This is certainly worrisome as it further reduces the role of the district boards and further removes them from central affairs and policies. The government has in the past always emphasized the interrelationship between the three levels of government structure. Meeting Point is of the opinion that introducing direct elections in the regions will certainly amount to a severe political stroke against the role of district boards. If the status of the district boards is left vague and unclear, it may seriously affect the willing participation of the districts and the voting rate in district board voting. We suggest the government must comprehensively and critically assess the functions of the district boards and of the local administrations, and also the direction of their future development, how the three-level administrative structure can be combined with the modifications in the central political system. We demand that a Green Paper be produced next year and that public consultations be instituted.

#### New Hong Kong Study Society Views Revised Basic Law

##### Response to 'Social Reality'

90CM0028A Hong Kong MING PAO in Chinese  
26 Feb 90 p 44

[Article by New Hong Kong Study Society: "A Comprehensive Analysis of the 'Basic Law' Question—Part I"]

[Text] After five years of hearings and political jousting, with the convening of the Standing Committee of the National People's Congress and the dust settling, the "Basic Law" has become a stout support for those bodies that advocate the democratic recovery of national sovereignty. The New Hong Kong Study Society hopes to

take a complete look at its drafting process and content and provide complete answers based on fact and democratic reason.

As everyone knows, the "Basic Law" is the "little constitution" that, in 1997, will replace the present articles of the British colonial constitution. Its main point will be to resolve two primary contradictions: the relationship between the central and local jurisdictions after Hong Kong returns to the motherland, and the internal contradictions within Hong Kong itself. The latter consists of the different ideas for political structure held by different classes and by conservative versus enlightened elements. These different, even adversarial ideas reflect the differences and political maneuvering and compromises that are embodied in the Basic Law itself. Objectively speaking, it has not received unqualified approval from any circle, or, in other words, no one has respected any viewpoint other than one's own.

#### The Basic Law Is More Enlightened Than the Colonial Constitution

Of course, from the position of factions for democratic recovery, the Basic Law does not meet our expectations. But after careful analysis and taking into account other views, it must be admitted that it has to a certain extent allowed for the internal benefits of all elements inside Hong Kong (but is still comparatively conservative-leaning). Its legal provisions solidly guarantee constitutional provision for "one country, two systems" (macroscopically compared, the Basic Law is light years ahead of the 140-year-old colonial constitution in enlightenment). Therefore, we have adopted a positive attitude toward it.

The solidarity of the people of Hong Kong and the fighting efforts of Hong Kong's Draft Committee, at the end of 1988, won the general support of Hong Kong in the revision of the articles concerning the Sino-Hong Kong relationship and even received British concurrence. There were many items needing revision, such as the constraints upon Hong Kong's legislative power, implementation of national laws in Hong Kong, judicial jurisdiction, etc. For example, the Draft Committee agreed with the Standing Committee that it could remove any legalization formulated by the Legislative Council that did not conform to Basic Law provisions (Article 17), clearly delineated the fact that national law implementation in Hong Kong consists of National Day, displaying the national emblem, territorial waters, citizenship, special diplomatic privileges, tax exemptions, and identification of the national capital (Article 18), and that Hong Kong's courts may interpret those legal provisions that concern its autonomous status (Article 157).

#### China Expects To Delegate Authority to Hong Kong

Although the provisions approved at the end of 1988 might not have satisfied some, analysis of the scope of

the revisions shows clearly that the Chinese authorities expect to delegate power to Hong Kong and the major constraining factor is how the internal regions of China would react to "one country, two systems."

The events of 4 June 1989 stunned Hong Kong, raised worries about possible interference by the Chinese Government in Hong Kong affairs, and accelerated public plans to emigrate. On the other hand, China's central government criticized the personal and financial support of Beijing's democracy movement by Hong Kong's residents as interference in China's internal affairs, and so it violated the "one country, two systems" principle. Thus, it sought to strengthen restrictions on Hong Kong by toughening Basic Law articles. Nevertheless, objectively and reasonably speaking, the provisions in the Basic Law governing "subversion" or prohibition of liaison with foreign political groups (which already exist in Hong Kong's current laws) clearly permit such restrictive laws to be enacted by Hong Kong itself. In other words, as the initiative rests with Hong Kong, Beijing's proclivity to interfere would be greatly diminished (Article 23).

#### **China's Interference Decreased**

As for Article 18, which concerns emergencies, it is clearly limited to those "disturbances that are beyond the capability of the Hong Kong government to control and which threaten national security." Naturally, we might criticize this article as unnecessary, but we hope to point out that the Chinese restrictions on the Basic Law after the 4 June incident were not as severe as some had expected. The clear confinement to "beyond capability to control" might be a hope that Hong Kong will not inject itself into mainland affairs rather than an increase in restrictions upon Hong Kong. Aside from this, Article 19 clearly defines such rather abstract legal terms as "national conduct" or "national facts," over which courts have no control, to mean "national defense" and "foreign relations" in order to further reduce the probability of interference.

Obliquely, the above situation seems to indicate that China does not necessarily desire to increase its control over Hong Kong, but hopes that the Basic Law will clearly define conduct that we regard as democratic, but which they consider to be subversive. Of course, we must definitely acknowledge that the unity of Hong Kong's people and the efforts of the Draft Committee had much to do with it as well.

#### **Internal Governing Provisions Tend To Be Conservative**

In total, we conclude that the articles that govern Hong Kong's internal political system tend to be conservative and need some improvement. The four principal ones are as follows:

1. "Before the election of Executive Council members, there should be an article added that provides for the nomination of candidates by a nominating committee with broad representation using democratic procedures." We consider this provision superfluous. A

broadly represented organization does not necessarily mean that its membership had been democratically produced, and it does not benefit the actual development of democratic systems.

2. Revising the more democratic portions of the "double investigation plan," that is, eliminating the concurrence of criticism of future systems through a referendum. This, without doubt, is harmful to public participation and misses a great chance for civic education.

3. Keeping the provision that the first session's Executive Council members are "selected through consultation, or nominated after consultation." We submit that the membership of the nominating committee is too few and that terms for consultation and compromise are not clear, thus affecting the authority of the Council members and that the democratic electoral principle might not hold true.

4. The vote for each legislator's proposed bill must be separately tallied. While this takes into account the considerations of those who advocate a "one committee, two councils," in actuality there would not be many proposed bills; Article 73 of the draft Basic Law severely restricts the ability of a legislator to propose bills. Yet, from a democratic standpoint, we feel this provision promotes the undemocratic principle of a minority vetoing a majority and fosters possible adversarial positions, so we hope that the Basic Law will revise it.

#### **Partial Reflection of Enlightened Viewpoints**

Because of Hong Kong's political system and programs reflect the diversity of Hong Kong society, even its opposite viewpoints toward the Basic Law and its coordination efforts with PRC's draft committee, were criticized by some conservatives as being overly democratic and going too fast. Thus, it reveals that, to an extent, some provisions reflect the enlightened element's views. This proposal basically negates the "one committee, two councils" model which had been regarded all along as the choice of the Chinese Government. Instead, it incorporates the proposals from industrial, commercial, and professional circles which could largely forestall possible wrongdoing under the two-council system. We feel the following points are worth noting.

1. As early as 1995, permitting 33 percent of the Legislative Council membership be directly elected, increasing to 40 percent by 1999, with more than 50 percent by the year 2003. We learn that such a rate of progression proposed by the Chinese that is even faster than that proposed by Hong Kong's Draft Committee comes as a result of China's consideration of the opinions of the enlightened faction. Furthermore, this proposal is closer to the "4-4-2" proposal, with a discrepancy of only 7 percent for the first session. The 50-percent formula for the year 2003 is two years slower than that proposed in the "4-4-2" plan.

#### Direct Response to Social Reality

2. In the election of functional organizations, it is closer to the ideas of the "38-Person Plan." This means that, when possible, representatives would be elected from the various professions and occupations on a one-person, one-vote system, making the Legislative Council more democratic.

3. At the same time, organize an Election Committee in 1995 and permit those elected that year to stay until 1997. This "going straight through" provision would be a positive way to respond to the social reality and help develop democracy even more.

During discussion of political systems, some people feel political system development must adhere to an inflexible schedule and some feel it must adapt to changing socioeconomic conditions. The current plans for the Legislative Committee can be said to be somewhere in between. The timetable to 2003 takes into account all views and flexible consideration. This would seem to allow for political reality and flexible development.

#### Product of Compromise

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[Article by the New Hong Kong Study Society: "A Comprehensive Analysis of the 'Basic Law' Question—Part II"]

[Text] As an organization for democratic recovery, we do not agree to having noncitizens hold office as legislators. Basically, there is no nation in the world that lets noncitizens hold the power to make its laws and decisions. Not only that, there must be considerations of political reality and national sovereignty. We also do not believe that provisions not written into the "Joint Declaration" cannot be included in the Basic Law and be considered as a violation of the "Joint Declaration." If we were to stretch the logic of this reasoning, then the Executive Council could not be included in the Basic Law, and the Basic Law would not be able to determine a lot of grey areas that were not covered in the "Joint Declaration." Of course, as it stands, the provisions create other questions. The Legislative Council allows only 20 percent of its membership to be noncitizens. Its actual implementation will be difficult—What happens when the number goes beyond that?

We see that the Basic Law is a creature of compromise, for it is only natural for some to be dissatisfied with portions of it; otherwise, it would have been accepted lock, stock, and barrel or completely rejected (of course, we maintain that the Basic Law's political systems provisions lean toward being conservative). Some, just because they do not like parts or the way it came about, want to do away with it entirely. We oppose that, because these people do not consider the need to respect the opinion of others. The vetoing of "Hong Kong politics" needs expanded consultation.

#### Using the Basic Law To Look at China's Position on Hong Kong

We believe that the intense opposition to the Basic Law by some people and their suspicions during its drafting stem in part not only because some are sensitive to its conservatism, but also because of a deeper feeling of "dreading Communism." Many fear that, although major changes have occurred in the past 10 years, mainland thinking has not departed much from that before reform. The 4 June incident exacerbated this fear, which caused many people to heap their frustration upon the Basic Law.

Even as the people of Hong Kong have this fear and resentment, all the more should we take notice of the Chinese policy toward Hong Kong. Does it or does it not hope to foist socialism upon Hong Kong? According to our analysis, here are some preliminary points to be made:

First, sovereignty over Hong Kong must be inviolable. This explains why China is firm on the 1997 date even though it might bring some economic instability. It also explains why it has been unwilling to delegate completely to Hong Kong even the minimum authority the central government must wield, but insists that the Basic Law must have a period of transitional change and continuity, etc. The high rate of autonomy known as "Hong Kong governed by its own" is a basic policy of China, but it must be under Chinese sovereignty.

#### No Change in the Capitalist System for a Long Time

Second, the maintenance of Hong Kong's stable prosperity. To do this, there would be no change in the capitalist system for a long time. But the protection of the interests of Hong Kong's capitalists is inevitable, especially when a good part of them had fled there from the mainland and they are extremely wary of the Communist power structure. Under these circumstances, to obtain their trust and investment, China had adopted many policies benefiting them to avoid the flight of their capital and thus affecting the economic situation. In the process of finalizing the Basic Law, we can see the extreme respect accorded capitalists. China's leaders met with the most prominent industrial and commercial brain trusts. They occupied positions on the Draft Committees way out of proportion to their numbers (we made this criticism in 1985 at the forming of the committees). And the Basic Law created a special chapter on economics, describing in detail how the existing economic system would be preserved, even leaning toward capitalist views concerning political systems.

Third is the protection of the government's authority. As with the government of any nation, excessive favoring of any faction leads to dissatisfaction on the part of others so as to affect the authority and even the legitimacy of a government. While supporting the capitalists, to preserve China's authority, it empathized with leftist unions in their goals, such as opposing the import of labor,

setting up a fund for a socialist economic collective, benefits for cabaret workers, and so on. Reflecting this are provisions in the Basic Law for labor and social welfare. In the Draft Committee and the Advisory Committee, the Chinese also accepted participation on the part of enlightened elements and of those who favored benefits for the middle and lower levels of people. This session of the conference of the Draft Committee also passed retirement guarantees. Using different avenues and methods, balance is sought as can be seen from the following examples:

1. The 1985 Advisory Committee election created some turbulent waves on the question of legality and we had made some criticisms. But analyzing from another angle, the nominees for chairman and vice chairman of the Advisory Committee as produced by the Draft Committee favored a balance, including capitalists, college presidents, judges, labor representatives, etc. It is doubtful that a more balanced slate would have been produced through an open election among the Advisory Committee members themselves.

#### **Gradually But Steadily Marching Toward Direct Elections**

2. In view of the divergent views held by various groups on the direct election ratios, the Chinese side has decided to adopt a timetable for gradual implementation to resolve the dispute and gradually but steadily move forward taking into account the various demands.

3. The residents of Hong Kong are encouraged to resolve among themselves their most serious disagreements and avoid having the Chinese Government decide for them, because it realizes that whatever it decides will be concurrently opposed by all factions. If Hong Kong can exploit the opportunity afforded in 1988 to resolved this on their own, then whatever plans they formulate will be far more democratic (because the industrial and commercial elements are willing to give considerable concessions). A look at the past experience of the central government in dealing with local issues indicates that a united Hong Kong will make the Chinese more amenable to concessions also. Nevertheless, at the time, the inflexible stance of the "Society To Promote Democracy" not to compromise in any manner made it impossible for Hong Kong to reach any consensus and a great opportunity was missed to secure a democratic system.

#### **"Resist Communism Through Democracy" Inadvisable**

Fourth, keeping brakes on the scope of some views of the overall Hong Kong picture. Analysis not only must be done from the angle of the collective political structure within the nation, but must be looked at in light of the complex nature of the transition. China had always been wary of Britain's promotion of pro-British attitudes by using a policy of "noncolonization." Objectively, there are economic and political pitfalls in any transitional society. Added to this was Hong Kong's reaction to the "4 June" affair and intense activity of a small minority. All these spurred the Chinese Government's motivation to increase constraints upon Hong Kong. Facts have shown that a

"resist communism through democracy" strategy is inappropriate and would only cause China to step up controls.

The "4 June" incident did not alter the basic Chinese policy toward Hong Kong as is clearly seen from the language of the Basic Law. Of course, China hopes to increase control, yet, from another standpoint, China's economic difficulties (especially in the various coastal regions that have been opened up, such as Guangdong) would make it rely more and more on Hong Kong for a bailout. And that would be conducive to looser reins.

#### **Summary and Recommendations**

1. Dealing with the Hong Kong question requires using a reasonable attitude based on reality and avoiding unilateral solutions.
2. It must be understood that the Basic Law will have to resolve the highly difficult problems in relations between the Chinese central government and one of its regional governments and those within the Hong Kong community itself. These must be considered in any such effort. Also, changes to the political system before 1997 must have linkage to the Basic Law.
3. While accepting the Basic Law, we must seek to revise those articles that favor upper-level and midlevel capitalists and conservatives. In 1988, we proposed a "constitutional amendment movement," but we must first accept the Basic Law. Otherwise, it would become a "discard the constitution movement" rather than one amending it. Besides, amendment is something for after 1997.
4. We must clearly discern China's Hong Kong policy and set a strategy to achieve the possible. It is certain that categorical rejection of the Basic Law and of China's sovereignty depart from political reality. Furthermore, today's Hong Kong and the Pearl River Delta have economic integrity. Harmony with the Chinese mainland is the major factor in Hong Kong's economic survival and development. This objective requirement compels us in our talks with mainland officials on democratic power to work equally hard for Hong Kong's prosperity as for the motherland's enhancing democracy. We must not oppose anything just because it was proposed by China.
5. In the transition process, we must pay particular attention to the practicality of the Basic Law. This makes any election law a vital strategic cog in formulating the political system. We must actively seek the democratization of the election procedure for the first session of the Executive Council, as this will greatly affect the direction that will be taken for post-1997 Hong Kong.
6. It is definite that, following the demise of colonial status, the proclamation of the Basic Law will bring a great democratizing opportunity to Hong Kong's political structure and make inevitable the emergence of party politics. We fervently hope that the parties will not only promote democracy, but will nationally analyze and coordinate with all factions before coming up with any

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programs to build upon, and will foster internal democracy, respecting dissent within the party. There must be a democratic attitude within each party that will not tolerate "labeling" anyone who disagrees, but that will be

tolerant, reasonable, and respectful of other opinions. This must be resolutely defended by the "democrats" and the democratic movement, and it is what is vital to the democratization of Hong Kong.